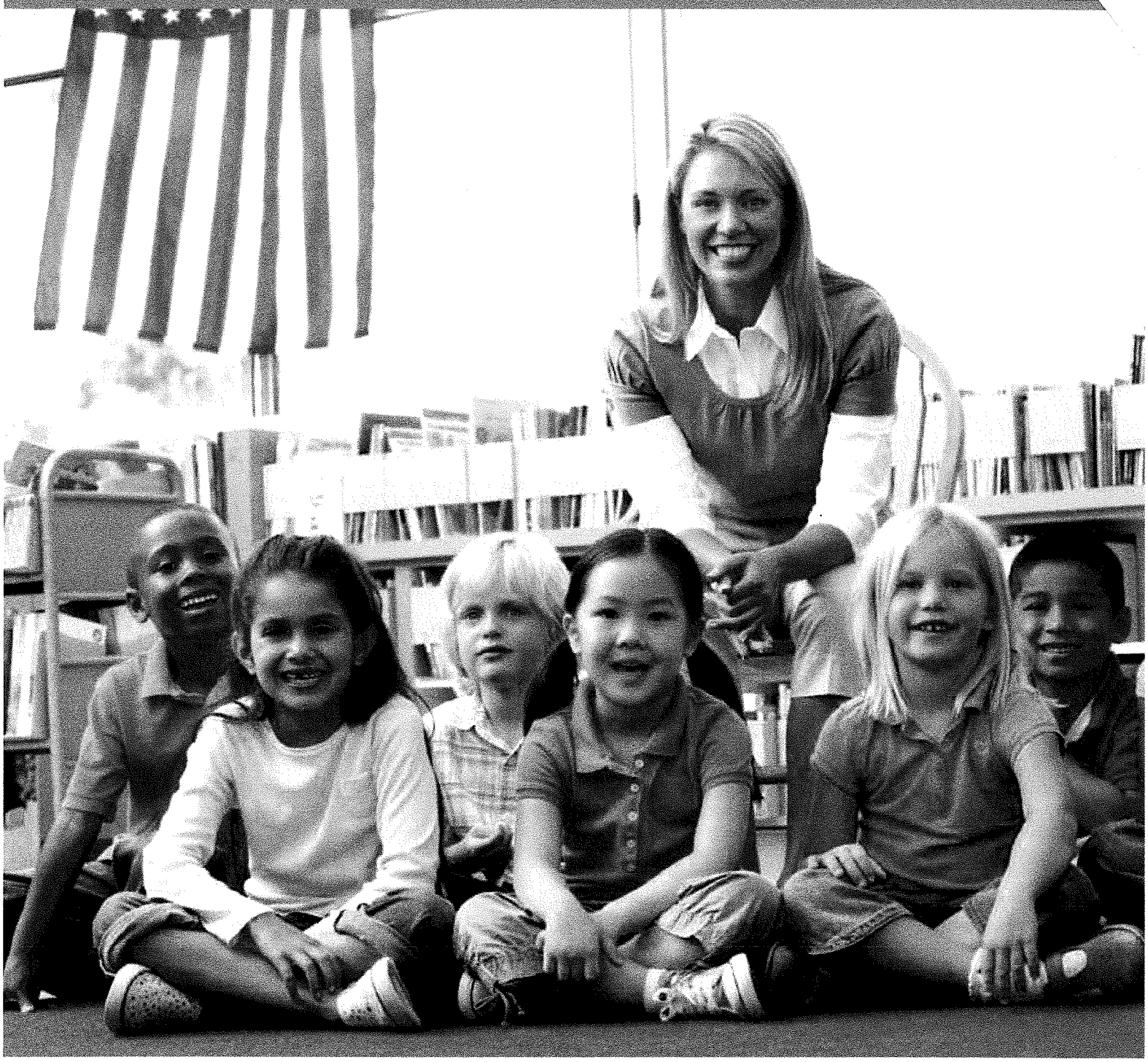

Going Exponential:

Growing the Charter School Sector's Best

By Emily Ayscue Hassel, Bryan C. Hassel and Joe Ableidinger

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The Progressive Policy Institute is an independent center for policy innovation with a proven record of driving political change. From progressive market strategies to performance-based government, from public charter schools to voluntary national service, its ideas have transformed progressive governance here and abroad. Guided by a spirit of radical pragmatism, PPI seeks to move the political debate beyond the partisan and ideological deadlock that thwarts our nation's progress.

Executive Summary

Growth of Great Charter Schools: The Problem and the Opportunity

THE PROBLEM

- Though controversy rages about the overall contribution of charter schools to U.S. education reform, few doubt that **a subset of charter schools has achieved extraordinary results** with disadvantaged students.

- Relative to the enormous need for quality education, **the number of children served by the best charter schools is far too low.** The top 10 percent of charter schools in the U.S. serve 167,000 children annually, but *millions* of low-income students in the U.S. are not on paths to diplomas because they are not reaching basic standards.

- **Numerous growth barriers confront even the best charter institutions. Practical barriers** include leadership and teacher shortages, operating deficits, scarcity of facilities, the lack of scale-enabling systems, differing community politics and state standards, and concerns about compromising results. **Policy barriers** include funding gaps; the lack of access to facilities; caps on the number of charter schools, regardless of their performance; and site-level governing board requirements. **Sector barriers** include limited views of the children to be served and of teaching venues, lack of innovation in instructional delivery, and the proliferation of mediocre and bad schools. Perhaps most importantly, a pervasive fear of growth has permeated the sector, stifling fresh thinking and innovation to reach more children with the best instruction.

> With rapid growth like peers in other sectors, the very best charter organizations alone could reach every child in poverty in the U.S.

THE OPPORTUNITY

- **The charter sector's best must aim for high exponential growth similar to that of the best growth organizations in the for-profit and nonprofit sectors.** Charter management organizations (CMOs) today are not approaching the growth rates of top organizations in other sectors, including nonprofits. It would be one thing if rapid growth were impossible, or were possible only by compromising excellence. But the barriers to growth in the charter sector are remarkably similar to those in other sectors. How to overcome these barriers is the subject of this report.

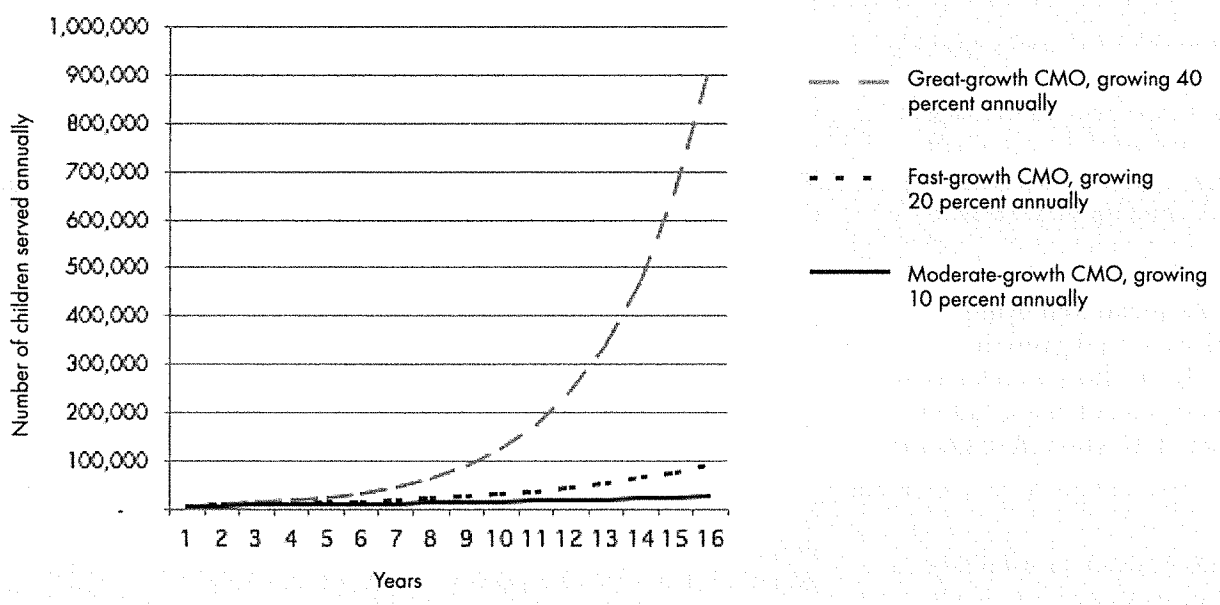
- **Millions more children would be reached with excellence every year if the charter sector's best pursued sustained, rapid growth.** For example:

  » For individual CMOs, **speed of growth makes an enormous difference in mission.** If a CMO with 20 schools grew 40 percent annually, a rate comparable to that of great growers in other sectors, after ten years it would have 578 schools serving 170,000 children annually. If the same CMO had grown 10 percent annually, after ten years it would have only 52 schools serving 15,000 children. Even if growth were to stop then, the faster-growing CMO would be serving more children annually than it would be after an additional 25 years of continuous growth at 10 percent annually. During that time, the faster CMO would provide almost 2.6 million more child-years of education.

  » The charter sector's top 10 percent alone can serve every child living in poverty if they grow at the same rate as top peers in other sectors. If the number of slots at top 10 percent charter schools grows 16.9 percent per year (the 10-year average charter sector growth rate), only 1.7 million students will have access to these slots in 2025. By contrast, if they expand 40 percent annually like rapid growers in other sectors, **by 2025 every child living in poverty in the U.S, and more, could be served** *as well as those in today's top 10 percent charter schools.* Nearly 26 million children would have access to schools as good as today's top 10 percent. Even if only half as many grew this fast, almost all children in poverty could have access to a superior education.

> The charter sector's best must commit to reaching more children with excellence – and must look to other sectors to learn how.

FIGURE 1: CMO GROWTH RATE EFFECTS ON CHILDREN SERVED ANNUALLY: GROWTH YEARS 1 TO 15



Ambitious, exponential CMO growth compounds to serve vastly more children each year than moderate growth.

Figure assumes each CMO starts the growth trajectories displayed with an equal number of schools, 20. It also assumes 296 students per school, the average school size reported in Robin J. Lake et al., *The National Study of Charter Management Organization (CMO) Effectiveness: Report on Interim Findings* (Mathematica Policy Research and Center on Reinventing Public Education, 2010), 42.

Lessons for the Charter Sector from Successful Exponential Growers

To develop fresh insights to spur growth of the charter sector's best, we researched the distinguishing characteristics of organizations in other sectors that have grown at sustained, high-exponential rates. The table below summarizes the lessons that emerged from that research and our initial recommendations for the charter sector.

CROSS-SECTOR EXPONENTIAL GROWTH LESSONS	RECOMMENDATIONS FOR THE CHARTER SECTOR	MAIN REPORT:
Exponential growers disproportionately . . .	***Charter sector leaders committed to exponential growth of excellence should . . .***	
1. **Have or bring on board top leaders who commit to growth** by mobilizing the organization's will to grow and by seizing growth opportunities.	**Commit not just to excellence, but also to reaching large numbers of children with excellence.** Stop thinking of growth and innovation to reach more children as "mission creep."	pp. 11-13
2. **Generate money to expand** by producing cash flow from positive operating margins and continued revenue growth, and then invest in growth essentials, such as innovative research and systems for scale.	**Negotiate performance-based funding in charter contracts** to pay excellent charter schools more and cut future funding from lagging charters. Invest new operating margins and redirect philanthropic funds to fuel growth among the best.	pp. 13-15
3. **Tackle talent scarcity quickly and creatively** by searching far and wide for experienced managers and inducting them carefully, developing talent internally, and maximizing productivity.	**Import and induct management talent.** Import experienced operational managers for rapid growth and innovation, and teach them the education know-how they need to run schools and CMOs. **Extend the reach of the best teachers and leaders.** Use technology and job redesign to enable the best teachers to instruct more children, and leaders to manage broader spans.	pp. 15-19
4. **Use financial and other incentives to fuel growth** especially for those in leadership and management roles, but also for other staff who affect growth.	**Reward charter leaders and staff for reaching more children** with excellent outcomes. Provide financial rewards for growth of excellent programs to emphasize the importance of growth to the mission.	pp. 19-20
5. **Reach customers wherever they are**, serving more needs of more people better.	**Use micro-reach and micro-chartering. Enable great teachers and excellent charter operators to reach students in small venues** without starting full-size charter schools. Reduce the impact of school leader and facility shortages, while pumping innovation and talent into the charter sector.	pp. 21-24

CROSS-SECTOR EXPONENTIAL GROWTH LESSONS	RECOMMENDATIONS FOR THE CHARTER SECTOR	MAIN REPORT:
Exponential growers disproportionately . . .	***Charter sector leaders committed to exponential growth of excellence should . . .***	
6. **Invest in innovation to pursue excellence and growth** using research and fresh insights from a wide range of advisors and customers to create new and better services and products, operations, systems, and ways to reach customers.	**Use branding to enable innovation** by the best. Brand novel approaches to clarify their distinctiveness, hold their leaders accountable, and protect proven charter brands. **Build a community of rapid-growth seekers** who also achieve excellent student outcomes in order to expose leaders to fresh thinking and catalyze advocacy for policies aimed at growth of the sector's best.	pp. 24-27
7. **Develop systems for scale** when needed to manage more customers and employees, including information technology, human resources, finance, and key operational systems.	**Invest in systems for scale**, using the money collected through new performance-funding contracts and cost-savings from reach-extension to build growth-enabling systems.	pp. 27
8. **Expand by acquiring other organizations** to enter new geographies, provide new services and products, increase cash flow, acquire talent, or control quality.	**Acquire other organizations strategically** to reach children in new locations. Acquire excellent schools and small CMOs to spread to new geographies. Prevent looming loss of excellence when founders of excellent stand-alone schools leave.	pp. 28-30
9. **Form operational alliances with others who are driven to grow**, including suppliers, customers, and even competitors to gain access to new geographies, distribution channels, expertise, funding, and scarce facilities.	**Pursue operational alliances** to overcome barriers to innovation, scale, and reach to serve more children in new locations, using new delivery methods that sustain or improve outcomes.	pp. 30-32

Charter organization leaders, philanthropists, and policymakers all must play critical roles to ensure that the charter sector's very best schools reach far more children. While our recommendations include numerous policy changes that would eliminate significant barriers, they also include strategies that charter schools, CMOs, and their funders can pursue even within the current policy climate. Two of our recommendations – performance-based funding and micro-charters – would require policy change but could pave the way for much more rapid growth by the best charter operators.

Great growth that will allow more children to be educated with excellence is possible. Our recommendations, which stem from the tactics of high exponential growth organizations in other sectors, provide a starting point. We hope and expect that innovators in the charter sector will add to the list of possibilities.

Going Exponential: Growing the Charter School Sector's Best

Growth of Great Charter Schools: The Problem & the Opportunity

Public debate continues to rage about the role of public charter schools in education reform. Policymakers and philanthropists across the political spectrum – some with qualifications, others with none at all – have flocked to support charters as an alternative to district schools with stagnant learning outcomes. In response, critics of charters such as Diane Ravitch have decried "the myth that charter schools are the answer to our educational woes," citing evidence that "there are twice as many failing charter schools as there are successful ones."[1]

> High-performing charter schools in high-poverty communities have shown us that disadvantaged children can learn exceptionally well.

Yet few debate one fact about the charter sector: the existence of a subset of schools that induce extremely high academic progress and achievement by children who enter years behind, many of whom are poor and a disproportionate number of whom are racial minorities. These include both stand-alone schools and networks, typically operating under charter management organizations ("CMOs"). KIPP (Knowledge is Power Program), Achievement First, and Uncommon Schools are three examples of CMOs that blossomed from single schools into high-performing networks serving primarily disadvantaged children. They teach children the habits of high ambition, hard work, and allowing oneself no excuses – and in most cases they achieve far better results than other schools. Regardless of the overall success rate of charter schools, high-performing charter schools in high-poverty communities have shown us that it is possible for disadvantaged children to achieve at high levels.

While every child counts, the number of children served by the best charter schools is far too low. Millions of parents and children keenly feel the gap between the number of children these schools serve and the far greater number who need their services. Children's educations are won and lost in the game of wooing top CMOs to cities and towns and again during admission lotteries.

How big is the gap between the need and supply? The charter sector as a whole served about 1.6 million children in the 2009-2010 school year.[2] According to one study, about 17 percent of charter schools measurably outperform comparable district schools for similar children, disproportionately so for disadvantaged children.[3] The top 17 percent of charter schools reached approximately 272,000 children in the 2009-10 school year.[4]

This supply of top charter slots is woefully inadequate relative to the need:

- Nearly 50 million children are enrolled in K-12 education in the U.S., and almost 20 percent – nearly **10 million children – live in poverty.**[5]
- In communities with high rates of poverty, **nearly half of high school students drop out.**[6]
- **NAEP economic achievement gaps are large**: In 2009, 16 percent of economically disadvantaged children were proficient in eighth grade reading on NAEP (National Assessment of Educational Progress), compared to 41 percent of their advantaged peers, with an even larger gap in math.[7]
- **Many low-income children who are performing at grade level are unquestionably capable of advanced work unavailable to them at their current schools** but which is offered at the best charter schools.[8]

- **Large achievement gaps remain in schools where less than half of students are low-income.** One-third of our nation's poor attend these schools.[9]

- **The problems are not limited to the least advantaged learners.** Only one-third of all eighth graders were proficient in math on NAEP in 2009, and even fewer were proficient in reading.[10] Highly capable learners, poor or not, do not receive appropriately advanced instruction in most schools.[11] Even a conservative calculation indicates that many millions more children would benefit if they had access to the nation's best CMOs and charter schools.

Poor and low-income parents grasp this reality and act on it in droves. They are among the most likely to opt out of assigned schools – over 50 percent of the time – if they have a known free alternative.[12] A growing proportion of both black and Hispanic parents support charter schools.[13] Many see charter schools as their children's only chance.[14] But while desperate parents might opt for any charter schools, children – and our nation – need the best charter schools to reach more children.

The federal impetus to turn around low-performing schools has added pressure for the best CMOs to grow by taking over failing schools. But few CMOs have responded. They are strapped to meet demand even in their

> Millions more children would benefit if they had access to the nation's best CMOs and charter schools.

traditional new-start mode and thus are wary of new modes of reaching children, even those squarely within the scope of their missions.

Demand alone would not be enough to call for faster growth by excellent charter schools if fast growth were impossible or certain to compromise learning excellence. High exponential growth by organizations is not only possible; it is a well-documented phenomenon in many sectors. Indeed, high exponential growth is one hallmark of the highest-impact for-profit and social good organizations. The best not only drive major changes in quality, speed, price, or aesthetic experience for customers, but also they are great at growth. This combination drives sector-wide change that reaches far beyond direct customers.

> While desperate parents might opt for any charter schools, children – and our nation – need for the best charter schools to reach more children.

BARRIERS TO GROWTH OF EXCELLENCE

Despite immense effort to make the education sector more responsive to parent demand by opening up school supply – and recent flack about how education has become a "business" – this characterization is inaccurate. Even the most effective CMOs and charter schools have not responded like the best of their private sector brethren, for-profit or nonprofit, to meet the surging demand. Why not? To understand the barriers, we interviewed several successful school and CMO leaders and other sector experts, who generously shared their perspectives. We also reviewed recent research and analysis on the topic. Finally, we identified additional sector-level growth barriers that became apparent as we reviewed the research and cases about growth in other sectors.

In summary, even the charter sector's best face growth barriers, including very practical, operational challenges, policy walls, and – perhaps most importantly – an insidious fear factor that stifles fresh thinking and the will to grow:

- **Practical barriers** include an inadequate pipeline of school and CMO-level leadership[15] and looming teacher shortages, operating deficits caused by the charter funding gap,[16] facilities scarcity,[17] difficulty implementing scale-enabling systems,[18] community politics and standards that

differ across states,[19] and concerns about compromising results during growth.[20]

- **Policy barriers** include funding gaps,[21] lack of facilities access,[22] caps on the number of charters regardless of outcomes, and unwieldy site-level governing board requirements.[23]

- **Additional barriers to sector-level growth** that we identified include: limited vision of the children to be served and in what venues, lack of innovation in instructional delivery, and the unchecked proliferation of mediocre and bad schools. Many leaders of successful schools and networks also fear that rapid growth is impossible without undermining excellence. While understandable, this fear has squelched the motivation and innovation needed to reach more children with excellence.

THE COST OF LIMITING GROWTH OF EXCELLENCE: MILLIONS OF CHILD-YEARS

High exponential growth of top-tier charter schools is essential to directly change outcomes for children (especially disadvantaged learners), to enable closure of lagging charter schools, and to stem the swelling tide of un-closable mediocre charter schools.

> Our children need the best charter schools to mature from demonstrating what is possible to bringing about change on a national scale by reaching more children.

Over time, the mathematical effect of growth rates on the number of children reached is enormous. In exponential growth, a compounding effect occurs because a steady percentage of growth builds on an ever-increasing quantity, leading to an enormous ramp-up, or "inflection point," after the early growth phase.

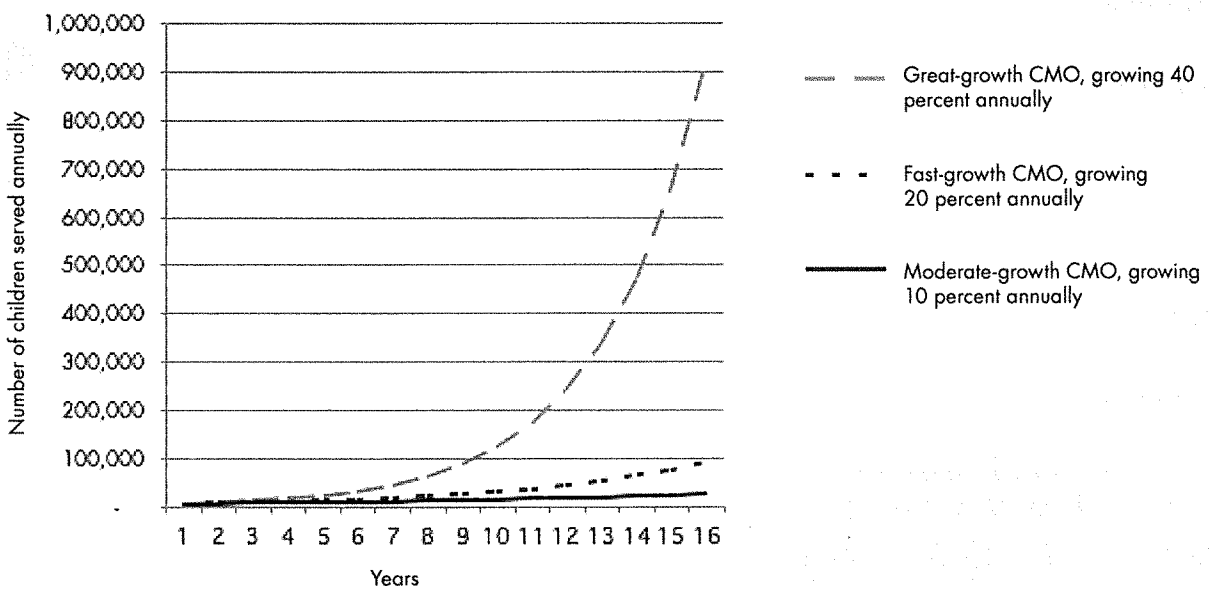
Millions more children – every year – would be reached with excellence if the charter sector's best pursued growth at higher rates like their peers in other sectors. For example:

- ***CMO View:*** For individual CMOs, the speed of growth makes an enormous mission difference. If a CMO with 20 schools grew 40 percent annually, a rate comparable to great growers in other sectors,[24] after ten years it would have 578 schools serving 170,000 children annually. If the same CMO had grown 10 percent annually, after ten years it would have only 52 schools serving 15,000 children (see Figure 1). Even if growth were to stop then, the faster-growing CMO would be serving more children annually than it would be after an additional 25 years of continued slower growth. During that time, it would provide almost 2.6 million more child-years of education.

- ***Sector View:*** With top-tier growth, the charter sector's best schools alone could provide every disadvantaged child in the U.S. with an excellent education. Seventeen percent of charters outperform comparable schools, but let us assume that only a portion of those – the top 10 percent overall – are really good enough to grow fast.[25] These schools serve about 167,000 children today. If these top 10 percent charter schools grow 16.9 percent per year (the 10-year average sector growth rate), only 1.7 million students will have access to the equivalent of top-10 percent slots in 2025.[26] In contrast, if these schools expand 40 percent annually like great growers in other sectors, by 2025 every child living in poverty in the U.S. could be served as well as those in today's top 10 percent of charter slots – and more (see Figure 2). Nearly 26 million children – more than double the number of school-age children living in poverty – would have access to schools as good as today's top 10 percent. If even half as many grew this fast, still almost every child in poverty could have access to a superior education.

Growing the number of charter slots that are as good as today's top 10 percent would likely also have the indirect benefit of squeezing out low-performing and even mediocre charter schools.[27] Today, some of these underperforming schools undoubtedly remain open simply

FIGURE 1: CMO GROWTH RATE EFFECTS ON CHILDREN SERVED ANNUALLY: GROWTH YEARS 1 TO 15



Ambitious, exponential CMO growth compounds to serve vastly more children **each year** than moderate growth.

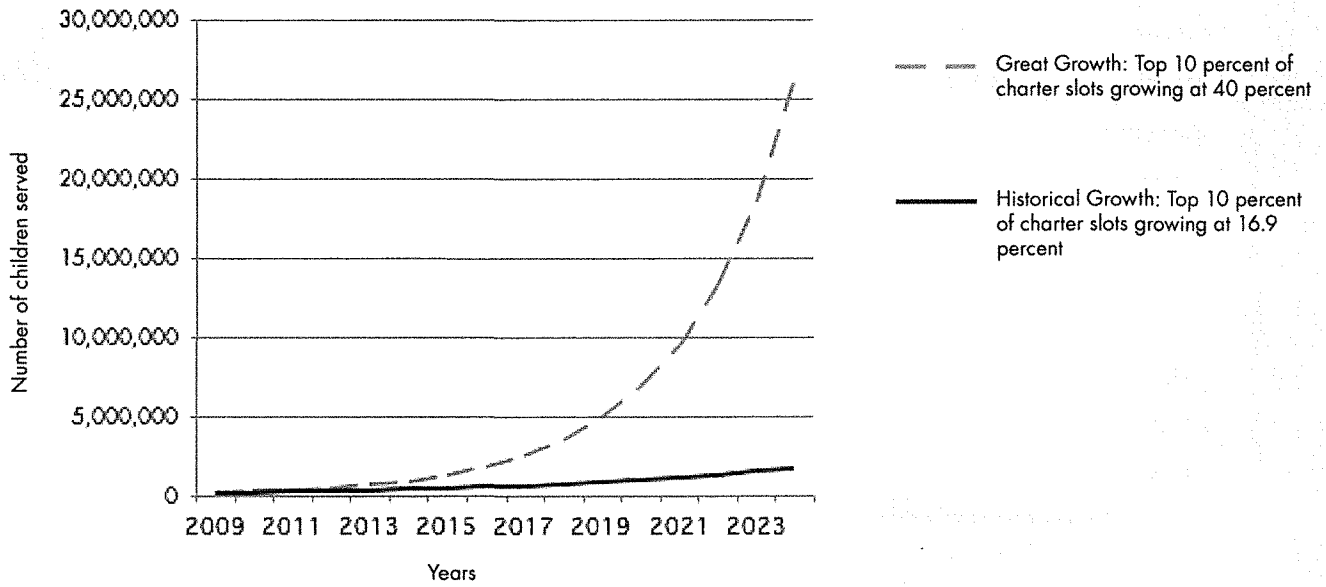
Figure assumes each CMO starts the growth trajectories displayed with an equal number of schools, 20. It also assumes 296 students per school, the average school size reported in Robin J. Lake et al., *The National Study of Charter Management Organization (CMO) Effectiveness: Report on Interim Findings* (Mathematica Policy Research and Center on Reinventing Public Education, 2010), 42.

because there are not enough great schools to replace them. Faced with the low odds of attracting a top charter school, many authorizers, parents, and communities stand by lagging and mediocre charter schools.[28] If bad charter schools were forced out by the rapid expansion of high-performing charters, today's mediocre schools would be the "new bad" and would feel the heat of a performance imperative.

HIGH GROWTH RATES ARE WITHIN REACH

But is sustained annual growth of 40 percent possible? Can organizations, with long, complex lists of necessary resources and policy conditions, do it? In fact they can, but only the elite in fact achieve it. In other sectors, elite organizations can change whole slices of the human experience by driving new levels of quality, service, convenience, aesthetics, and innovation into our lives. These are the organizations we studied to inform our thinking for the charter sector. If only a portion of the charter sector's best were to achieve similar growth, the sector could mature from demonstrating what is possible to changing our nation's course.

FIGURE 2: SECTOR VIEW: NO. OF CHILDREN SERVED BY TOP 10% CHARTERS BY 2025 WITH HIGH EXPONENTIAL GROWTH VERSUS HISTORIC GROWTH RATES



If the charter sector's best grow like the slowest among elite growers in the private sector, nearly 26 million children would be served every year as well as those in today's top 10% charter schools. Historic growth rates will lead to serving only 1.7 million children annually.

Tabulations from data provided by National Alliance for Public Charter Schools Charter School Dashboard. Downloaded August 4, 2010 from: http://www.publiccharters.org/dashboard/home. The historic 16.9 percent growth rate is the constant average growth rate in the number of charter school students nationwide between 1999-2000 and 2009-10.

Exponential Growth Lessons from Other Sectors

In other sectors it is not enough to be excellent. To be great, you must also be big. But organizations in other sectors face barriers to rapid, excellent growth similar to those in the charter sector. The average annual revenue growth of businesses is just 3.5 percent.[29] Only a fraction of businesses grow fast. The best grow very fast – often at rates well over 20 percent or even over 100 percent. And they sustain this growth for multiple years, delivering excellence to customers and shareholders.[30]

These great growers are the organizations that define or redefine the experiences of millions, sometimes billions, of consumers. They also change the industry standard for quality, cost, convenience, speed, or some other "value proposition."

To be clear: rapid, sustained growth is not easy. Most fail to achieve it. However, the pattern of actions that elite growers use has become apparent in recent years. The charter sector can now benefit from knowledge that was not apparent at its inception two decades ago. As in this sector, leaders of other sectors feel the tension between fostering growth and maintaining excellence. Many limit growth out of concerns that expansion will compromise quality. But some organizations manage to do both, growing rapidly while maintaining or even improving their products and services.

> Elite growers in other sectors redefine the experiences of millions, sometimes billions, of consumers.

How do these exponential growers do it? What can we learn from them in contrast to other firms that grew less successfully? Here we summarize the chief lessons that emerge from research on sustained, high-exponential growth organizations.

Lessons from Research about Exponential Growth

Exponential growers disproportionately...

1. Have or bring on board top leaders who commit to growth by mobilizing the organization's will to grow and seizing growth opportunities. See pp. 11 – 13.

2. Generate money to expand by producing cash flow from positive operating margins and continued revenue growth, and then investing in growth essentials, such as innovative research and systems for scale. See pp. 13 – 15.

3. Tackle talent scarcity quickly and creatively by searching far and wide for experienced managers and inducting them carefully, developing talent internally, and maximizing productivity. See pp. 15 – 19.

4. Use financial and other incentives to fuel growth, especially for those in leadership and management roles, but also for other staff who affect growth. See pp. 19 – 21.

5. Reach customers wherever they are to serve more needs of more people better. See pp. 21 – 24.

6. Invest in innovation to pursue excellence and growth using research and fresh insights from a wide range of advisors and customers to create new and better services and products, operations, systems, and ways to reach customers. See pp. 24 – 27.

7. Develop systems for scale including information technology, human resources, finance, and key operational systems when needed to manage more customers and employees. See pp. 27 – 28.

8. Expand by acquiring other organizations to enter new geographies, provide new services and products, increase cash flow, acquire talent, or control quality. See pp. 28 – 30.

9. Form operational alliances with others who are driven to grow including suppliers, customers, and even competitors in order to gain access to new geographies, distribution channels, expertise, funding, and scarce facilities. See pp. 30 – 32.

Not every organization we studied used every strategy, and they all used additional tactics to improve quality and organizational effectiveness. To determine what lessons to highlight, we focused only on elements that have been noted by researchers as likely distinguishers of sustained, high exponential growth organizations. The articles and books we considered included multi-organization quantitative and qualitative analyses, which typically identify the most successful growers quantitatively and identify the factors correlated with successful growth using a combination of quantitative and qualitative analysis.

We examined stand-alone cases of organizations that had sustained, high exponential growth in the modern era of technological innovation, changing labor market conditions, and flat-world economics. We avoided organizations that were merely large (for example, because of moderate growth sustained over a century) or merely excellent in their products or services.

We sought to understand the period of time just before and during which some companies grow at far higher, better-sustained exponential rates than others, achieving scale and bringing their products and services to large numbers of customers – fast.

Based on each lesson, we make recommendations for the charter sector, addressing what charter operators, funders, and policymakers can do to make slots at excellent charter schools – ones as good as today's top 10 percent – much more widely available.[31] Some recommendations will make more sense for any given charter operator or funder, while others will not fit. While our recommendations include numerous policy changes that would eliminate significant barriers, they also include strategies that charter schools, CMOs, and their funders can pursue

even within the current policy climate. Two of our recommendations – performance-based funding and micro-charters – would require policy change but could pave the way for much more rapid growth by the best charter operators. We hope that our insights will inspire others to develop their own with equal or greater transformative potential.

1. Exponential growers have or bring on board top leaders who commit to growth

Sustained exponential growth organizations universally have leaders who are driven to reach large numbers of people with their "excellence paradigms" – their visions of quality, speed, convenience, aesthetics, or innovation. They rally others' will to grow through zealous communication of their combined excellence and growth visions. They convey their desire to change the world in large measure.

Early leaders of exponential-growth organizations are more likely than those of slower-growers to be driven by bold visions to change the world.[32] Many, even in for-profit ventures, display a pervasive urge to improve the human experience in some fundamental way or to dominate a sector, and to reach large numbers of people.[33] In that quest, many explicitly reject immediate, large financial rewards in order to achieve a larger vision.[34] They are not driven solely by a passion for excellence.[35] Rather, rapid growth to reach more people is front and center. Thus, they overcome the tension between growth and excellence. If changing the world or dominating a portion of the human experience is the goal, excellence with a small group of customers does not satisfy.[36]

> If improving a vast swath of the human experience is the goal, excellence at a small scale does not satisfy.

Some founder-leaders begin with growth in mind.[37] Others discover opportunities with exponential potential and expand their vision

to seize them.[38] In other cases, leaders who join an existing organization see potential to expand the vision and the remaining founders are receptive to advice about how to grow.[39]

Once exponential growth leaders are committed to growing the reach of their excellence paradigms, they pursue common tactics to internally build will and to determine how to tackle seemingly insurmountable barriers. Common tactics include:

- Pushing for rapid growth and making sure to avoid missing windows of opportunity for moving great ideas forward. They adopt a "never big enough attitude" so long as they can manage growth and not compromise excellence.[40]
- Working in complementary leadership pairs or teams to drive and manage growth, often with one as the visionary and others as operational masters.[41]
- Zealously communicating their visions that unite excellence and growth throughout the organization, bringing others on board, quelling fears, and quieting resistance.[42]

RECOMMENDATIONS FOR THE CHARTER SECTOR

Commit not just to excellence, but also to reaching large numbers of children with excellence. Stop thinking of growth and innovation to reach more children as "mission creep."

A new success formula. For millions more students to gain access to what the best charter schools have to offer, the charter sector's best must shift their focus away from excellent student outcomes alone. They must commit to a new formula for measuring success: Charter Sector Success = Student Outcomes X Annual Number of Students Reached.[47]

Exponential Leaders See Growth as Essential to their Visions

Millard Fuller founded Habitat for Humanity with the goal of "eliminating poverty housing and homelessness from the face of the earth." [43]

"Our little management team didn't examine our motives for wanting to grow fast. We set out to be champions, and speed was part of the equation." – Howard Schultz, Starbucks Founder [44]

Bill Gates and Paul Allen founded Microsoft to put "a computer on every desk and in every home."[45]

Steve Jobs aimed for Apple to make the personal computer "an 'information appliance' as ubiquitous as the telephone."[46]

Student outcomes are critical. They are the foundation of any valuable "excellence paradigm" in education. Nonetheless, the number of students reached is also a key measure of success. As exponentially growing organizations with world-changing visions in other sectors know, rapid growth of excellence is crucial both for its direct effects and for its indirect effects on others in the sector. Rapid growth prevents entry by less-successful players and ups everyone's game. The charter sector must grasp this new fundamental if it is to achieve its greatest potential impact. The number of children reached is the essential twin of student outcomes. Speed of scale matters. Seizing educational space with excellent outcomes is the only way to ensure that those outcomes reach more children. Those who succeed in changing a slice of the human experience do not leave the growth of their organizations to chance. Likewise, the charter sector's best must pursue the direct effects of seizing educational space rather than assuming competitive effects on other school providers.

> The Charter Sector's Success = Student Outcomes X Annual Number of Students Reached

Mistaking innovation and growth for "mission creep." One common strategy of successful exponential growers is continuous innovation to find new ways to serve existing customers or to reach completely different customers.[48] Too often, this kind of innovation is labeled "mission creep" in the charter sector and therefore is strenuously avoided. Efforts to find ways to serve students in other geographies, other demographics, and other venues (like low-performing district schools), or even outside of school altogether often seem to charter leaders like diversions from their core mission. For a successful school or CMO, avoiding these "diversions" can feel like a safe way to preserve learning excellence.

Exponential growers in other sectors would disagree. Indeed, as we explain in detail later, innovation is one of the most consistent and critical distinguishers of firms that "go exponential" compared to those that do not.[49] In education, there are innumerable innovative ways to reach more children with excellent outcomes: in operations, instructional delivery and staffing models, in data systems to identify instructional improvements, in the venues where children are

reached, and in partnerships and alliances that enable growing into new states and locales, or even into district schools. The list goes on; some of our other recommendations presented here are a start.

For some of today's charter leaders, stories of early for-profit education management organizations that grew rapidly but failed still resonate. But these companies' error wasn't mission creep. Instead, they undertook poorly planned or executed strategies for growth, such as spreading their initial schools over many states, each with its own charter laws, authorizers, state standards, and assessments. They underestimated the instability of relying on hastily assembled community-based boards to govern their schools – boards that could throw them out if the going got rough. These experiences provide cautionary lessons, and we all can learn from them. Further, the field and the children will be better off if we counter these failures with a grasp of what successful growers do.

A new commitment to rapid growth of excellence needs to come from various actors in the sector:

- **Charter and CMO Leaders:** Examine yourselves with fresh eyes. Ask yourselves whether your organizations aged too quickly, adopting the management practices of old, large organizations before achieving the size needed to achieve the founding vision. Reconfigure your leadership teams as needed to commit to a vision that includes the new success formula (student outcomes X number of children reached = success).

- **Philanthropists:** Make the new success formula your grant-making guide. Ask your top-notch charter grantees to consider more ambitious growth targets. Seed the creation of new charter organizations that have higher growth sights from the start. Fund organizations that can help great charter schools and CMOs grow using exponential growth tactics. Fund periodic gatherings of charter and CMO leaders focused specifically on rapid growth of excellence, so they can learn from each other; invite thinkers from outside the inner charter circle to infuse fresh thinking en masse.

- **Policymakers:** Let the new success formula guide your policy agenda. Remove policy limits on the growth of the best charter operators by exempting them from charter caps and eliminating growth-slowing constraints such as the requirement for each school to have its own governing board.

2. Exponential growers generate money to expand

Exponential growers disproportionately achieve early results on key measures of financial success, according to D.G. Thomson's study.[50] Specifically, cash flow from positive operating margins and revenue growth are the two early financial measures that matter most for determining future growth trajectories. Leaders are able to invest the cash generated by operating margins in ways that drive further growth, such as innovative research, expansion to new sites, and the development of central systems that will produce economies of scale.[51] Moreover, by demonstrating positive cash flow and early, sustained revenue growth, companies attract investors, furthering growth.[52]

RECOMMENDATIONS FOR THE CHARTER SECTOR

Negotiate performance-based funding in charter contracts to pay more to excellent charter schools and cut future funding from lagging charters. Invest new operating margins and redirect philanthropic funds to fuel growth by the best.

Most charter schools have operating deficits, which are covered by private philanthropy.[53] In other words, most charter schools lose money on every child. There are three ways to reduce operating deficits and instead generate operating margins: **decrease costs, increase productivity,** and **increase the revenue stream** per child. Since charter schools operate on about 80 percent of the funding levels of neighboring districts,[54] most have already reduced costs through such means as using marginal facilities, employing a more junior teaching staff, and foregoing non-essential amenities and activities. Enhancing productivity holds more promise, as we discuss below in our exploration of how to extend the reach of the best teachers and leaders.

But what about increasing the revenue flowing to the best charter schools? Charter funding equity has been a primary policy goal of charter advocates. Indeed, any proven CMO sought by a new location should make additional funding, on par with public schools, a competitive element of decisions about where to locate.

> Policymakers that move first to increase funding of the best charters at the expense of lagging charters can transform their states into magnets for top providers.

To promote sector-wide excellence, **performance incentives** are a better bet. There is no good reason to give charter schools educational space without requiring results and no good reason to clip the financial wings of excellent schools that could serve more children in need. Upside incentives for achieving student outcomes would enable growth of the best charter schools and CMOs by funding them in the black rather than in the red. Such contracts could be negotiated by CMOs with states, districts, and other authorizers – whoever has the power of the purse. Alternately, policymakers could build performance incentives into charter funding policy for all charter schools in a given jurisdiction.

As with any performance-based reward system, using the right metrics and setting the right target levels of performance would be essential. Since state and authorizer accountability systems vary so much, we do not attempt here to set forth a universal answer. Metrics would need to include not just student proficiency measures, but also growth measures – to ensure that schools serving students who start out behind can win these awards by achieving rapid progress. And targets should be high, so that only excellent charter schools (e.g., the top 10 percent) earn them.

Either way, schools that achieved student outcomes better than specified in the contract would receive more funding. In theory, these bonus payments could be funded with "new money" on top of existing charter funding. In today's budget climate, however, a more viable approach would be to mandate that the lowest-performing charter schools (e.g., the bottom 10 percent) receive less the following year, or return some funds to the public. In effect, charter schools would offer "performance guarantees," a concept explained more fully in Public Impact's previous work on that topic.[55] Reducing anyone's funding is bound to be controversial. But in addition to making performance upside bonuses budget neutral – an essential step in today's political and economic environment – downside performance guarantees could also speed closure of low-performing charter schools.[56]

Middling schools – ones that do not achieve results good enough to receive performance incentives or bad enough to incur penalties – would keep current funding allocations and stay open only if they can make ends meet with regular charter funding or if their missions are compelling enough for them to continue attracting private philanthropy.

Even with performance bonuses, top charter operators would not likely make a "profit." Instead, they would be able to close gaps in their current operational and facilities funding and use any additional dollars to invest in growth to serve more children. If they were also able to attract private funding, this too could drive additional growth so that more students benefited from their excellent schools.

- **Charter and CMO Leaders:** Negotiate for what you're worth. Aim to reach more children with excellent outcomes by negotiating performance-funding contracts that generate operating margins instead of deficits. Motivate your central and school-level teams with the knowledge that your ability to reach more children depends directly on results with current students. When you have achieved top learning results elsewhere, negotiate full-fare initial contracts in new locations that want you to open new schools.

- **Philanthropists:** Fund initiatives to develop performance incentives and advocate for them in conjunction with performance guarantees.

Fund creation and dissemination of model contracts and policies covering performance incentives and guarantees. Fund charter quality advocates to shine light on authorizers that squander money on laggard schools while forcing high-performing charters to beg for private money in perpetuity. "Prime the pump" for performance incentives temporarily – by paying the upside until they catch hold with policymakers.[57] Continue to direct more funds to charter operators that grow rapidly while maintaining excellent student outcomes.

- **Policymakers:** Make your state a magnet for top charter providers and unattractive to less-effective providers by requiring and advocating for performance incentives and guarantees. Lead the change of state charter laws to include performance incentives paid to successful charter schools and reduced funding for less successful ones. Charter performance incentives are a potential political win for either side of the aisle, since they would stop the flow of money to bad schools and enable the best providers to open new slots.

3. Exponential growers tackle talent scarcity quickly and creatively

Organizations that grow exponentially face the same constraint that holds back today's best charter operators: an inadequate supply of talent, especially of management talent – people who can organize other people and processes to deliver excellent results. Research suggests that fast growers do not let this constraint stop them from expanding. Instead, one factor that sets successful rapid growers apart is the strategies they use to acquire and enable the talent they need.

Rapid-growth firms search far and wide to fill key management roles. Exponentially growing organizations typically cannot grow management talent internally fast enough to meet the need. So, while they do everything they can to identify and cultivate internal talent, they fill critical management roles by importing experienced managers from other organizations and even other sectors.[58] Examining 30 rapid-growth companies, Hambrick and Crozier concluded that successful growers often passed over long-time employees in favor of outsiders who were better prepared to handle the challenges of increased size.[59] Another study of 45 rapid-growth firms found that bringing in professional managers early and retaining them are critical strategies in many of these organizations.[60]

Imported managers can come from very different industries, similar industries, or direct competitors. **Starbucks**' CEO Howard Schultz hired a variety of seasoned executives to guide the company's growth: a 20-year industry veteran with eight years as president of a successful beverage company, a 25-year retail veteran, and a former CFO of a freight company who was formerly a managing partner at Deloitte & Touche. Each of these individuals was 10-15 years Schultz's senior. Schultz recognized that each of them was far more qualified than he to handle certain segments of the rapidly expanding business.[61] Starbucks also hired talented professional managers from Taco Bell, Wendy's, and other retailers.[62] Similar stories abound at other rapid-growth firms, such as **Microsoft** and **Walmart**.[63]

Importing leadership can even entail replacing a founder-leader who built the organization and shaped its culture with an outsider who offers stronger experience with larger operations.[64] John Sculley, **Apple**'s CEO beginning in 1983, had been the president of Pepsi-Cola.[65] **Habitat for Humanity**'s CEO as of 2005, Jonathan Reckford, was previously an executive with Best Buy and Disney and the pastor of a large Presbyterian church.[66] Both replaced charismatic and revered founder-leaders.

Rapid-growth firms also do the most with the talent they already have. Exponential growers disproportionately expend resources on utilizing talent well, developing staff, retaining their existing employee base, and giving their successful employees immense opportunity to advance within the organization.[67] Research shows that fast growers commit more than slower growers to orientation and training programs that convey the organization's values, expectations, and goals.[68] They offer development opportunities

that prepare employees to advance and to execute growth-oriented strategies.[69] Rapid-growth firms also focus staff on growth goals using financial incentives, including stock options, and they help new staff succeed rapidly by putting them on task-oriented teams.[70]

The software and information services giant SAS is often researched and cited as an example of talent-driven rapid growth. SAS uses unique perks and benefits to bond employees to the organization and maintains a database inventory of employee skills to enable its people to switch jobs without leaving the organization.[71] The annual turnover rate at SAS is about four percent (compared to the industry average of 24 percent), and the company maintains this rate year after year, saving considerable amounts of money, which helps drive the company's continued success and rapid growth.[72] Frequent internal promotion complements a strong external recruitment program to keep the company attracting, developing, and retaining key talent.[73]

RECOMMENDATIONS FOR THE CHARTER SECTOR

While numerous lessons from exponential growers may help the charter sector address its talent challenges, here we focus on two compelling opportunities: importing and inducting management talent and extending the reach of the best teachers and leaders to more students.

> ***Import and induct management talent.*** *Import experienced operational managers for rapid growth and innovation and teach them the education know-how they need to run schools and CMOs.*

Though charter operators may have a natural preference for homegrown leaders (e.g., teachers who grow into leadership roles), it is unlikely that the internal pipeline will be sufficiently large to fuel the kind of rapid, exponential growth we are exploring here. In addition, like the founders of rapidly growing private sector firms, operators of rapidly growing charter organizations are likely to need a level of management talent within their central offices that goes beyond what most homegrown candidates can bring.

To grow more rapidly while maintaining quality, the best charter organizations need to vastly expand their efforts to import leaders from other sectors with proven operational track records and give them the know-how they need to succeed in education. Both leadership competencies and knowledge of how to achieve excellent educational outcomes are essential to school-level and CMO-level leadership.

CMOs have engaged in significant importing for their central offices. For example, the Broad Residency in Education imports and trains individuals from other sectors to play high-level management roles in CMOs and districts, with 42 residents in the current 2010-12 "class." Similarly, Education Pioneers offers internships with education nonprofits, including charter management organizations, to potential "imports" from MBA, law, and policy graduate programs, nearly 300 in the summer 2010 program; 70 percent of the interns go on to take full-time jobs in education.[74]

Moreover, some surveys point to a vast talent pool, many of whom are former middle managers, seeking fulfilling second careers in their 50s.[75] Is the pool of leaders capable of running a charter school successfully, even with help from an exceptional CMO, unlimited? Undoubtedly not. Indeed, great growers in every sector are strapped to find enough managers at this level during periods of rapid growth when talent cannot be grown internally fast enough.

Despite this, most in the charter sector have barely even considered importing school leaders. CMOs most often require school-level leader applicants to be former teachers and make leadership training part of induction. Few have experimented widely with selecting proven managers and leaders from other kinds of organizations and spending the induction time on developing education competence.

What if carefully selected imported leaders spent a year teaching and assisting current school leaders with special projects? Would they be any less likely to succeed than former teachers with no management experience? Or school leaders who have succeeded only in very different school

contexts? Would imported managers respond to financial incentives for excellence and growth, even if they fell short of opportunities in the private sector? These questions are impossible to answer today, simply because so few education managers have been imported.[76]

Importing is not without perils and pitfalls; however, neither is the traditional formula if we consider the results in schools today. As a result, various actors in the charter sector should consider ways they can contribute to the successful importation of leaders:

- **Charter and CMO Leaders:** Import managers and leaders and experiment with new selection, induction, and incentivizing to achieve both growth and excellent student outcomes. Track your results and learn from peers doing the same.

- **Philanthropists:** Fund redesign of leader training and induction for successful CMOs that want to import leaders. Fund imported-leader provider organizations. Use corporate networks to shake loose potential education growth leaders. Fund development of alternative selection tools and processes appropriate for distinguishing imported-leader candidates. Pay to track and disseminate results of selection and induction methods. Fund incentive pay experiments with charter and CMO managers to identify effects on both growth and student outcomes.

- **Policymakers:** While most charter schools are already exempt from requirements that school leaders be certified teachers or hold a license in school administration, states that still subject charter schools to such strictures should eliminate them to ensure that charter operators can freely import talent.

Extend the reach of the best teachers and leaders. *Use technology and job redesign to enable the best teachers to instruct more children and leaders to manage broader spans.*

In addition to importing talent, rapid-growth organizations make the most of the people they have, whatever their source. In the charter sector, the best organizations could do much more to make the most of their talent by focusing on the productivity of people. While the word "productivity" may conjure up images of squeezing more effort out of already hard-working teachers and staff, we have a different idea in mind here. One way to increase productivity while creating retention-inducing pay and advancement opportunities for top talent is "reach extension."

Teachers. For teachers, reach extension means reaching more children with the best instructors and instruction already available. Reach extension can take several forms, such as redesigning jobs to concentrate teacher time on instruction, putting star teachers in charge of more children's learning, and using technology to extend top teachers' reach and meet their standard. We call the different reach extension modes "In-Person" (reaching more students in person), "Remote" (interacting personally with students, but not in-person, using technology), and "Boundless" (pre-recorded video and online learning that does not include human interaction).[77]

Potential reach-extension methods vary according to the level of "touch," or direct student interaction with top teachers, and "reach," or number of children served by each instructor. Eliminating rote and non-instructional duties from top teachers' schedules would increase touch and reach simultaneously, potentially decreasing group sizes while increasing the number of children reached. This may especially benefit students who, because of age or learning needs, learn best with high levels of teacher interaction.[78] Even high-touch, low-reach methods of reach extension, such as voluntary, small increases in class size for top teachers, could significantly increase the number of children learning from the best.

Most likely, the best reach extension will enable top-notch onsite instructors to work with smaller groups and reach more children by eliminating non-instructional duties and having children spend a portion of the day with online learning designed or delivered by top-tier instructors.

Today, schools regularly squander their most important assets – teachers and leaders – and the charter sector has done little to get out of this

ineffective mode of utilizing talent. Exceptions are emerging. Rocketship Education, a California-based CMO, places students in "learning labs" for about 25 percent of the school day, in which they learn basic skills online. Teachers then work with students the rest of the day on more advanced topics and meet individual needs. As a result, each of Rocketship's teachers reaches more children than a typical teacher does during the workday, and the schools save money because they need fewer teachers. Since it needs a smaller number of instructors, Rocketship can select a higher caliber faculty from its applicant pool.[79]

> The charter sector has done little to stop the squandering of education's most precious assets: great teachers and leaders.

In most schools, teachers must leave instruction to advance their careers. Great school leaders who want to achieve more must leave school operations roles for positions in the central administration. Even in the charter sector, the best talent is drawn away from children instead of toward ensuring that more children gain access. By contrast, in schools that use reach extension, star teachers and leaders would have unprecedented opportunities for achievement and impact while staying close to the instructional hub.

Reach extension would also pay financial dividends for charter organizations. Charter schools generally receive funding on a per-pupil basis. Finding ways for great teachers to reach more students means more revenue per teacher. Charter organizations could then use this dividend in two ways. First, they could pay great teachers more, creating economically sustainable career advancement opportunities for their best. Second, as we discussed in the preceding section, exponential growers tend to generate higher "margins," extra funding that they reinvest in rapid growth. The best charter organizations could do the same if they extended the reach of their best teachers and plowed a portion of the resulting dividends into meeting growth challenges.

Leaders. Public Impact's previous reports on reach extension address great teachers. Here we posit that reach extension of great leaders to more children also presents opportunities for achieving excellent student outcomes at a larger scale.

Reaching more children with the best leaders might be a relatively simple way to grow the impact of high-performing charter schools, and some CMOs are already actively utilizing this form of reach extension. For example, some proven school leaders could go on to lead pods of three to five similar schools – providing vision, drive, planning, and problem-solving – while site-level leaders implement. Similarly, proven leaders' schools could inch upward in size, add campuses to reach younger or older students, or aim to dominate the elementary, middle, or high school experience for target children within existing locales. Many options become apparent when the number of children reached becomes a metric of success.

> Reach extension of top talent could allow charter schools to pay top teachers and leaders more, while saving money to invest in growth.

Moving forward with reach extension. Charter organization leaders, funders, and policymakers all have roles in using reach extension to tackle the talent challenge for high-performing charters:

- **Charter and CMO Leaders:** Extend the reach of your best teachers and leaders. Most charter schools do not face rigid class size limits, pay scales, role definitions, and other policy barriers and long-standing habits that constrain district schools. Use your autonomy to make the most of the talent you already have.

- **Philanthropists:** Fund experimentation, evaluation, and dissemination of reach extension efforts. Evaluate your giving using the new charter success formula: student outcomes X number of students reached with

excellence. Fund design and implementation of reach extension in all three modes (In-Person, Remote, and Boundless) and in combination. Fund documentation, model building, research, and dissemination related to reach-extension experiments and results. Avoid cutting support for charter providers that lower costs and achieve operating margins though reach extension while not compromising student achievement. Instead, provide as much or more funding to enable their rapid growth.

- **Policymakers:** Remove policy barriers that may prevent the best teachers and the best school operators from helping more children. Exempt charter schools from class size limitations, seat-time requirements, and other constraints that may force them to use the typical "one-teacher-one-classroom" mode and thereby limit the reach of great teachers.[80] Allow charter schools to use highly effective teachers from other states to provide remote instruction to their students, even if those teachers lack certification within your state. Finally, enable charter schools with excellent student outcomes to expand enrollment and open new campuses without counting against caps on the number or scope of charter schools.

4. Exponential growers use financial and other incentives to fuel growth

In the for-profit sector, of course, the owners of a business have a built-in incentive to grow the firm. If the business is making money, or will at a certain scale, owners have an enormous amount to gain by getting bigger fast. Many founder-leaders who have driven exponential growth in other sectors were motivated by grand visions of changing some aspect of the human experience. Many sacrificed short-term financial gain to achieve their visions. In the long run, however, they received personal rewards not only for excellence, but also for the large scale of their enterprises, which they achieved through sustained exponential growth.

Research indicates that successful rapid-growth organizations push incentives beyond owners and founders. Such organizations reward employees' roles in driving growth and improving excellence with financial and other incentives.

Barringer, Jones, and Neubaum's 2005 study of 50 rapid-growth vs. 50 slower-growth firms found that rapid-growth companies were significantly more likely than slower growers to provide financial incentives and stock options, coupled with lower base pay.[81] In 1985, Hambrick and Crozier discovered that successful rapid growers offer bonuses and stock options at all levels, not just for high-level managers. In doing so, these firms motivate their people by creating a feeling of ownership and common fate throughout the organization.[82] Fombrun and Wally's survey of 95 of the fastest growing companies in the U.S. found that focusing and motivating people with a financial interest in the enterprise is a commonality among the fast growers across industries.[83] **Starbucks**, for example, offered its employees stock options to generate enthusiasm and a sense of ownership. **Walmart** encouraged its employees' will to grow by introducing a profit-sharing plan for all employees.

RECOMMENDATIONS FOR THE CHARTER SECTOR

Reward charter leaders and staff for reaching more children with excellent outcomes. *Provide financial rewards for growth of excellence to emphasize the importance of growth to the mission.*

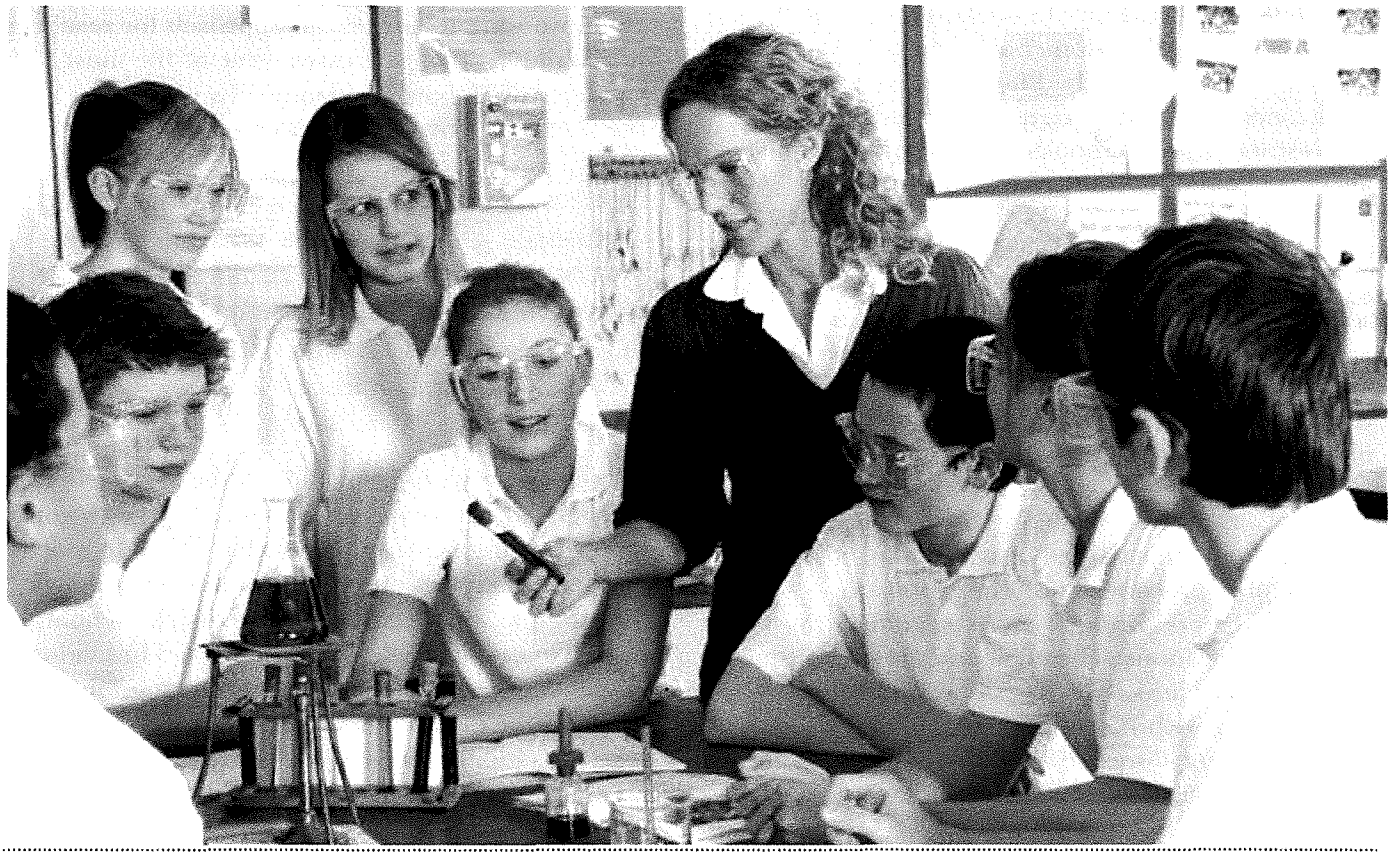
Compared with rapid growers in other sectors, too little funding in the charter sector flows to the individuals who could drive excellence on a large scale. CMO and school leaders have little financial or reputational incentive to grow exponentially. Doubling the number of children served will not double the pay or reputation of CMO leaders in today's environment. Likewise, CMO employees have little incentive to increase the complexity of their jobs if reaching more children is neither expected nor rewarded. The benefit to children already served is no greater. Thus, quite reasonably, most schools and CMOs choose to "stick" or to grow cautiously.

Instead of applying the seductive "altruism" test to potential charter leaders, those who want to change the educational landscape of our nation for the better should consider applying the "will to reach children with excellence" test instead. They must create growth incentives that reward charter organizations and their leaders and staff for the number of children reached with excellent outcomes. Most funding achieved through performance incentives, reach extension, and philanthropic focus on growth will flow to the organizations for further expansion. But great charter founders, leaders, and central staff who can effect growth should have the opportunity for financial rewards commensurate with their contributions – just as great teachers and school leaders should (see Reach Extension, above).

- **Charter and CMO Leaders and Staff:** Those who take the growth-of-excellence challenge and succeed deserve and should be able to expect financial rewards. More children will be better off as a result of such rewards than if the charter school field relies upon altruism alone to induce growth in the number of excellent education slots for children.

- **Philanthropists:** Entice new entrants into the charter field with bold, new calls to potential founder-leaders compelled by both excellence and growth. Philanthropists can make this happen with venture funding explicitly and tightly focused on charter organizers who both commit to growth in word and have the child-reaching operational ideas to back it up. Make rewards personal, not just organizational, for top leaders and central staff in a position to reach more children with excellent outcomes.

- **Policymakers:** Do your part to make possible performance contracts and reach extension of the best teachers and leaders.[84] This will allow philanthropists to redirect funds for incenting growth rather than plugging preventable operational holes.



5. Exponential growers reach customers wherever they are

Exponential growers add new customers by expanding extensively and provide more products and services to nearby customers. Strategies used by rapid growers to expand their customer base include:

- Geographic expansion,
- Providing products and services in alternative venues where customers already go,
- Adding new types of venues in current locales,
- Reaching customers online,
- Meeting more types of current customers' needs, and
- Continuing to meet current customers' evolving needs over time.[85]

For example, **Starbucks** first expanded geographically by moving into an urban "hub," where a team would open 20 or more stores in two years, and then into surrounding "spoke areas" with the demographics of their typical customer mix.[86] They gained a foothold in one location before moving to another. Starbucks also practiced "store clustering" – opening several stores in close proximity to one another – to increase sales and customer awareness.[87] As it grew, Starbucks reached new and existing customers in current geographies, moving beyond retail stores and into bookstores (Barnes & Noble), airlines (United Airlines), supermarkets, and commercial building kiosks.[88] They eventually offered products online, including not just coffee but also music and books (in partnership with Yahoo) to pair with the coffee-drinking experience.[89] The Yahoo–Starbucks alliance is one of many examples of partnerships that enable reaching more customers in unexpected ways that meet the mission (see Alliances below for more).

Fast growers also do the most with the locations and customers they already have. **Walmart**'s placement of groceries and other goods in its "supercenters" brought more customers to its current locations. The company's opening of warehouse clubs (Sam's Club) was aimed at expanding within existing geographies but beyond current store walls by offering wholesale value.[90] **Williams-Sonoma** acquired Pottery Barn and expanded into new markets with Pottery Barn Kids, PB Teen, and Hold Everything, all of which cater to the same customer base in different areas and stages of their lives.[91]

RECOMMENDATIONS FOR THE CHARTER SECTOR

What these different strategies share is an intense focus on finding new customers and thinking outside of the box regarding where and how to reach them. In the charter sector, the "box" is the assumption that the only way to grow charter excellence is to create more full-size schools just like the already-successful ones.

Are there other ways to reach more children and to serve children currently attending top charter schools even better? Undoubtedly. Indeed, some charter organizations have begun to pursue the most obvious opportunities, such as expanding from networks of middle schools into the field of high school education. But many more possibilities exist for reaching children in need. The best innovators will start to "see" them – once they commit to rapid growth. (See Acquisitions and Alliances for ideas to aid geographic expansion.)

Here, we want to suggest an approach for reaching new children that addresses some of the most vexing growth barriers. Ironically, it requires the sector to "think small" to grow bigger.

> ***Use micro-reach and micro-chartering. Enable great teachers and excellent charter operators to reach students in small venues*** *without starting full-size charter schools. Reduce the impact of school leader and facility shortages while pumping innovation and talent into the charter sector.*

We see two ways to grow the number of excellent charter slots in small venues. One, "**micro-reach**," involves using existing schools for CMOs to reach children in venues other than whole new schools – for example, single classrooms of district schools or online material accessible to motivated individual students. The second, "**micro-chartering**," means opening the doors to new entrants – individual teachers, small groups of instructors, and community-based organizations – by offering

charters to educate small numbers of students, rather than a full-size school's worth of them.

The charter sector has a major opportunity to reach more children in smaller venues. Why?

- *Small pockets of children are not learning enough all over America*, but they are widely dispersed and hard for even the best charters to reach in the current whole-school-replication mode. These children could learn far more if education's best aimed to reach them wherever they are.

- *School-level leadership and facilities are two major barriers to growth* of even the largest, most accomplished CMOs. What if we could offer the best charter and CMO instruction to students without having to put up a new school facility and find a great leader every time?

- *Instructional excellence exists all over America*, but many teachers are isolated from the chance to reach children in need and are without the right support to achieve excellent outcomes consistently.

- *Online learning is one mode, but not at all the only mode* available to reach children anywhere. As other commentators have suggested, opportunities to "unbundle" the school experience abound but have rarely been explored in U.S. K-12 education.[92]

> Thousands of potential providers sit on the sidelines while children in need languish. Micro-charters and micro-reach could change this picture radically.

Our small solutions to these big problems are micro-reach and micro-chartering, both of which:

» Find people with the will and skill to succeed with students, and

» Empower them to reach children in any venue where they can achieve student outcomes.

Micro-reach. Micro-reach is for existing charter schools and CMOs using the charters they already have, or obtaining additional charters, to reach large portfolios of very small groups of children. Here are some examples:

- **"KIPP in a Box."** Some successful CMOs could experiment with enabling select, individual teachers in unaffiliated schools (district or charter) to reach classrooms of children using direction, tools, and remote support from the chartering entity but with access to facilities, extracurricular activities, and other primarily non-instructional offerings of the host schools. KIPP essentially started in a classroom, when two young teachers learned that it took something different to get the best results from kids starting out behind. How many more teachers-turned-leaders are ready to take on the "no excuses" challenge?

  For example, selected teachers in diverse schools with large achievement gaps could run "gap closing" classrooms. The achievement gaps in relatively well-off schools have received little attention, yet large numbers of children are affected: About one-third of our nation's economically disadvantaged children attend schools in which less than half of the students are low-income.[93] Most diverse schools do not achieve acceptable learning outcomes with a significant portion of these children, but are at a loss about how to meet their needs while also serving already-advanced learners.

  Such an initiative, unlike its twin described below in the section on micro-chartering, would not require legal changes. The two essential criteria of micro-reach are a matter of will: district leaders must be eager to close achievement gaps and CMOs must be driven to reach more children and willing to work with select teachers in district-run schools. Districts already shell out billions for the professional development and support of teachers. What if they directed a fraction of

these dollars to replace low-impact trainings with high-powered exposure at their own schools to the nation's best gap-closing school providers? Of course, not all district leaders would be willing to take this path, but as performance pressures increase and districts face more charter competition, the appeal of this approach will likely grow.

- **Share the Sector's Best – With Individual Children Anywhere**: offering a top-notch charter operator's program online to individual children who do not actually attend one of the operator's schools. It takes willpower and learning skill to succeed academically. Some older children provide the will themselves and just need instructional access and personal coaching to achieve. Motivated students could tap into what the best charter operators offer, but continue to take advantage of their own schools' offerings, such as sports teams and other extracurricular activities.

- **Share the Sector's Best – With Schools Anywhere**: packaging and offering elements of top CMO programs to willing instructors and school leaders anywhere, ranging from instructional materials and behavioral programs to teacher selection and training tools.

Micro-charters. Micro-charters as we envision them are the policy-enabled cousins of micro-reach. While micro-reach enables existing charters and CMOs to reach more children in small venues, micro-chartering involves granting new contracts to individuals or organizations to serve small numbers of children, rather than entire schools as under current charter policies. The performance standards for micro-charters should be high and the time to demonstrate student results very short (possibly even less than one year before a contract could be cancelled for poor performance). Cancelling a contract with a single teacher reaching 20 children should be far easier politically and practically than revoking the charter of a school serving 200.

Here are some examples of people with whom micro-charter contracts might be forged:

- **Teachers not connected to schools.** Former teachers, homeschooling parents, private tutors, small teams of high-performing teachers who want to work in smaller venues to reach otherwise unreachable groups of children, and school instructional volunteers all fall into this category.

- **Community-based organizations.** Some of these groups are already successful at providing social glue and managing behavior. Adding instruction through a combination of online learning and in-person tutoring completes the picture.

- **Teachers in district schools: the policy-enabled version of "KIPP in a Box"** (described above). In this alternative, a teacher in a district school would report to the CMO, not the school's leadership. The teacher might or might not come from the school's current teacher roster; the CMO would decide. In some cases, the CMO would gain access to teachers who would not choose to work in one of its schools for various reasons but who would seize the opportunity to teach a classroom of disadvantaged children with the support of a successful CMO. The classroom, practical provisions (access to transportation, cafeteria, etc.), and some non-core instruction might be purchased by the CMO from the school. The school would provide the classroom in order to address its stubborn, intractable achievement gaps and to recoup a portion of funding to support fixed costs. Student learning results might be reported in the school's accountability data as well as in the CMO's, to increase cooperation and joint accountability.

- **Motivated high school students.** In some cases, strong will to learn and achieve comes from the child, but many children are isolated in schools where they cannot achieve their potential. Without funding and a parent who can instruct, homeschooling is not feasible for most. Yet geography and personal circumstance need not hold back any child in America. Access to online learning combined with an assigned personal coach and ways to dock into extracurricular activities

(such as local recreational league sports) are familiar territory for many home-schooled students today. Imagine if a student could apply for a micro-charter that provided money to pay for materials, online course fees, and personal coaching, enabling the student to achieve more during the high school years.

One exciting aspect of micro-chartering is that, while it mitigates school leader shortages, leaders would nonetheless emerge from among micro-chartering individuals and entities. Some teachers would develop leadership skills and grow their micro-charters larger or develop them into clusters of micro-charters. Others, having undergone trial-by-fire leadership development training, would be ripe for school leadership recruiting by CMOs and (in some cases) district schools. Some would stay small, reaching perhaps one to 30 children. Altogether, a much larger number of people would be able to achieve success with children by operating in smaller venues. Overall, a vastly larger number of people concerned with education would have entrepreneurial, student outcome-oriented experience under their belts.

How can actors in the charter sector help it "grow big by thinking small"?

- **Charter and CMO Leaders:** Consider pursuing micro-reach and managing micro-charter portfolios. Calculate how many more children you could potentially reach with excellent outcomes by utilizing teachers, venues, and instructional delivery modes you are not using now. Envision achieving your mission more fully by managing large portfolios of related micro-charters and micro-reach initiatives, organizing or providing some elements of instruction, behavioral and personal support, and materials.

- **Philanthropists:** Fund micro-reach and micro-chartering efforts, in particular design and one-time implementation costs for CMOs, charter schools, and policymakers that want to pursue either strategy. Pay special attention to founder-leaders of charter schools and CMOs who are serious about innovating to reach more children in small venues. Fund crafting of and advocacy for policies that enable micro-reach and micro-chartering. Establish microloan or grant pools for select individuals, community based organizations, and small teacher groups to plan and apply for micro-charters, and for very successful micro-charterers to grow.

- **Policymakers:** Square current policies to allow micro-reach and lead development of strong micro-charter policies.

6. Exponential growers invest in innovation to pursue excellence and growth

Research indicates that exponential growers innovate more and invest disproportionately in finding new ways to achieve their visions. Even after significant initial successes, they continue to seek what researchers have called "breakthrough," "radical," and "unique" changes in what they deliver, how they deliver it, and whom they target as customers.[94] These organizations innovate by moving beyond what customers have come to expect, attracting new customers, and providing increased value to those who return.

For top growers, investing time and talent in innovation is a habit, not a special project. They invest in innovation even though they are already great. How do they innovate radically when they have been so successful doing what they already do? Research shows that rapid-growers innovate by getting to know customers very well, exposing top leaders to a diverse flow of fresh thinking from multiple sources, and simply by spending more on research and innovation.[95] Leaders of other high-growth organizations are a favorite source of ideas.[96]

Despite the constant change that innovation produces, successful growers do not tend to take foolish risks. They choose innovations that fit their business strategies and implement them with great planning and care.[97] For example, companies going global innovate in distribution systems, network heavily in new locations, and try new partnerships with local firms to help with unfamiliar regulatory environments. Likewise, high-growth organizations that

reconfigure products to reach an untapped mass market innovate in operations to produce high volume without compromising quality.[98]

> Top growers invest time and talent in innovation even though they are already great.

Rapid growers innovate on numerous fronts, and these tactics change over time to enable continued growth. Efforts cover a wide range of areas, including:

- New and radically better products and services;
- New venues that provide more customers with what they want;
- Distribution and supply chain changes;
- Partnerships, alliances, and acquisitions;
- Management and technology systems to enable formerly unattainable scale; and
- Policy influence.[99]

Critical issues that every innovator must consider include: how measures of success will differ from the organization's current modes, how aware the outside world will be of the innovation's association with the existing organization, and how accountability will be divided within the organization. Sometimes organizations execute innovations internally under the same brand, but sometimes they use different branding that both clarifies the difference for customers and enables internal accountability for success of different units.

The addition of online retailing by existing bricks-and-mortar chains is one example with the least differentiation between existing and new modes: Branding is typically the same and the "value" is similar (e.g., luxury goods are still sold for a premium; discount goods are still sold at bargain prices). The addition of Sam's Club stores in locations with nearby Walmarts is an example of the use of related-but-different branding to clarify a different mode of sale to customers, in this case wholesale with an annual membership fee.[100] Post-secondary education provider Career Education is another example: It has fueled sustained, high-exponential growth by providing services under multiple brands for people seeking jobs in a variety of sectors (business, health, culinary), in multiple geographies, and online as well as in-person.[101]

Sometimes, different branding is not enough: An innovation with very different kinds of target customers, product or service offerings, and success metrics – e.g., discount rather than luxury goods, or, in schools, excelling far past grade level rather than just meeting standards – may need far more autonomy and branding unrelated to the parent organization. Dayton Hudson's prescient launch of Target is a celebrated example of this. The organization's leaders were far more successful than peers at companies like Woolworth (which launched Woolco) that kept similar new ventures tightly tethered to the parent organizations. Harvard's Clayton M. Christensen has examined this mode of "disruptive innovation" thoroughly in a number of works.[102]

RECOMMENDATIONS FOR THE CHARTER SECTOR

Here, we do not recommend specific innovations for the best charter operators to pursue (aside from those presented elsewhere in this paper). Excellent providers who choose to grow more rapidly can use new operating margins achieved through performance incentives and reach extension for numerous innovations aimed at quality and growth. We have two recommendations for enabling innovation by the sector's best: use new brands to protect existing operator reputations while encouraging innovation and build a community among the subset of charter operators truly committed to high exponential growth.

> ***Use branding to enable innovation by the best.*** *Brand novel approaches to clarify their distinctiveness, hold their leaders accountable, and protect proven charter brands.*

In the politically-charged charter sector, reputation is a huge concern for well-regarded CMOs. Innovation is risky: If new efforts fall short, the operator's reputation could suffer. Yet, innovations should be subject to the same fast-results, no-excuses rigor that has made the best charter providers successful.

Separate branding – similarly separate internal accountability within innovating charter organizations – could help. With existing CMOs, branded units could pursue small, targeted experiments aimed at reaching children within their mission who cannot be reached with existing operational modes. Successes could grow, failures could die, both without muddling or spoiling the original brand. Separate branding allows innovation without as much risk to the established name and clarifies the different approaches for funders, authorizers, parents and students. Branding also can heighten accountability and clarify responsibility for leaders of innovative efforts within larger entities. Like the organization's original entrepreneurs, innovative charter units must live or die by how well and how fast they achieve student outcomes.

As an example, suppose a CMO with a highly successful portfolio of start-up schools wants to get into the business of taking over and turning around failing district schools. The turnaround effort's results may lag behind the start-ups' stellar outcomes for a number of reasons. Even if a CMO rapidly nails the turnaround recipe, achieving immediate success with a whole school of students who are far behind is almost certain to prove more difficult than achieving success with one grade at a time, as many charter operators do. Even if the same number of children (e.g., all fifth graders) makes very high progress in a turnaround as in a one-grade start-up, a smaller percentage of the total student population will make high progress in the turnaround than in the start-up in the earliest years.[103] Such a charter turnaround operator might achieve standards with a whole grade at a time over three years, without graduating another child who has not achieved standards. This would be a wildly successful turnaround, just the kind our nation needs, yet the results would misleadingly pale in comparison with new schools where other grades are excluded at first. School-wide achievement percentages will lag in the earliest years even if the relevant success metric – the percent of students exiting the school at grade level – is excellent. Thus, a successful CMO might shrink from turnaround efforts unless distinct branding was used with accountability metrics relevant to turnarounds.

Many other opportunities await successful CMOs eager to reach more children, such as increased use of online learning, micro-reach, and school redesign to extend the reach of top teachers to more children. If a CMO pursued new tactics under separate brands, the equation might change, tipping the decision in favor of innovation to serve critical niches of students and pursue its mission using many of the same tactics and orientation toward results as in its start-up schools.

- **Charter and CMO Leaders:** Rethink your organizational structures to enable accountability for branded units. Look to other sectors (including online and higher education) for branding models that would enable innovation, clarity, and accountability while protecting the good name of your original operational model. Then, select best-fit growth innovations that will allow your branded units to reach more children extremely well.

- **Philanthropists:** Incent launch of branded innovation units by the willing among the charter sectors' best. Fund the organizational and accountability design, planning, and data systems that CMOs need to increase the odds of successful execution.

- **Policymakers:** Gear accountability systems to report results by brand using relevant performance metrics, thus enabling CMOs to reach more and different student groups by innovating and expanding into new operational modes. For example, a CMO's start-up and turnaround results should be reported separately.

Build a Community of Rapid-Growth Seekers *who achieve excellent student outcomes to expose leaders to fresh thinking and catalyze advocacy for policies aimed at growth of the sector's best.*

The charter sector already features a number of associations, resource centers, and "communities of practice." What we are proposing here is a more specific community among operators who are highly committed to rapid growth. While these operators share interests with less-growth

oriented peers, they could benefit from more specific co-thinking, access to fresh ideas by outsiders, and joint advocacy that is only possible among themselves. Charter and CMO leaders and philanthropists are in better positions than policymakers to forge these networks.

7. Exponential growers develop systems for scale

Dealing with larger numbers of customers and employees requires information technology, human resources, finance, and key operations systems and routines that are not needed in a small organization. These systems can improve productivity and economies of scale as the organization becomes more complex.[104]

Exponential growers vary in the timing of their development of systems for scale. For some, investing in systems ahead of growth enables them to seize opportunities ahead of competitors.[105] They appreciate the wisdom of **IBM** founder Thomas Watson's comment, "If you want to be a big company tomorrow, you have to start acting like one today."[106] **Starbucks** regularly invested ahead of the growth curve, developing the financial, accounting, legal, planning, and logistics systems that undergirded their national expansion.[107] **Walmart**'s 1964 investment in a new distribution center, along with their investments in technology starting in the early 1970s, paved the way for the company's exponential growth.[108]

> Top growers implement scale-enabling systems without squelching the fresh thinking and problem-solving that made them great.

For others, lack of systems does not impede growth: They simply make changes gradually as old modes start getting in the way.[109] It took **eBay**'s website crashing for eight hours to prompt the company to invest in increased system capacity. **Habitat for Humanity**'s growth stumbled temporarily when its leadership resisted modernizing its financial and information systems and its HR policies.[110]

All exponential growers eventually implement systems for scale when they need them, while staying focused on growth and excellence in the products and services they provide. Successful growers avoid allowing systems to replace the informal discussion, brainstorming, and problem solving that are essential to organizational excellence.[111]

RECOMMENDATIONS FOR THE CHARTER SECTOR

Invest in systems for scale, *using the money collected through new performance-funding contracts and cost-savings from reach extension to build growth-enabling systems.*

Lack of systems is a barrier to the growth of the best charter operators, but the obstacle is primarily financial: finding enough funding to build systems for handling student data, instructional content, human resources, and a range of financial and back office operations. Since they receive 80 cents on the dollar relative to district schools, operators' only source of funding for building systems is philanthropy. What if the best charter operators could change this financial picture using tactics like the ones we outlined above: negotiating performance contracts that pay them more for their excellent results and extending the reach of their best teachers to more students? Then, charter operators would have more to invest in critical, growth-enabling systems.

Our major recommendation is to charter school and CMO leaders and philanthropists: Adopt systems for scale assertively when needed, but also avoid letting system design take leaders' focus off either excellence of outcomes or other growth activities. **Policymakers** have less of a role to play here, beyond those outlined above: enacting performance-based funding for the best charter schools and clearing any barriers to reach extension.

8. Exponential growers expand by acquiring other organizations

Acquiring other organizations serves many purposes for growth: easing entrance into new geographies, expanding the range of services and products offered to current customers, increasing cash flow, acquiring talent in large numbers, and enabling the acquirer to control the quality of a key product, service, or function that it needs to serve customers.[112] Acquisitions often occur in sectors with a large number of very small players.[113] Successful exponential growers acquire carefully to achieve a specific purpose, avoiding acquisitions that fail to mesh with the organizations' operations and values to achieve intended goals.[114] Mascarenhas et al. found that acquisition was a major strategy pursued by a subset of rapid-growth firms.[115]

In 1993, in the midst of exponential growth, **Cisco** made acquisitions one of its four strategic goals.[116] Cisco prioritized acquisitions as part of its growth strategy for many reasons: to acquire talent, to fill product gaps, to gain complementary technologies, to expand market presence, and to freeze competition.[117] Between 1995 and 2000, Cisco acquired more than 70 other companies (attracting the attention of the Federal Trade Commission and the U.S. Department of Justice).[118] By 2000, it was the fastest-growing company of its size in history.[119] **EBay** also used acquisitions as a major growth driver during crucial years: Its acquisition of Half.com helped the company move into online book, music, and video markets, and its acquisition of PayPal improved the way eBay integrated payment functionality into its services.[120] The acquisition of Pottery Barn by Williams-Sonoma allowed the company to broaden its product line and expand into new product segments while serving the same customer base at different stages of life.[121]

> Acquisitions and alliances are promising ways to overcome barriers and reduce the risks of expansion.

RECOMMENDATIONS FOR THE CHARTER SECTOR

Acquire organizations strategically *to reach children in new locations. Acquire excellent schools and small CMOs to spread to new geographies. Prevent looming loss of excellence when founders of excellent stand-alone schools leave.*

Acquisitions are largely a foreign concept in the charter sector. When charter operators grow, they almost always do so by opening new schools or expanding the size of their existing schools. Each of these growth modes – new schools, school expansions, and acquisitions – takes funding, and bigger operating margins from performance incentives and reach extension would enable all three alike. Yet acquiring existing schools (or small CMOs) that serve similar populations of students could uniquely address several common barriers faced by growth-minded CMOs. Perhaps the biggest is the chance to sidestep the facilities obstacle by moving into an existing school building. Existing schools also already have relationships with authorizers, vendors, political and community leaders, teachers, and families that the expanding operator would otherwise have to forge from scratch. Successful schools likely already have an understanding of the state's standards and a curriculum aligned to these standards, a valuable asset for a CMO moving into a new state. For the acquiring operator, the addition of already-successful schools will also bring new ideas to refresh its mission.

No doubt, acquisitions would also present challenges for charter operators. Building everything from the ground up is challenging, but also is regarded by many operators as a critical part of their recipe. Existing staff, students, and other relationships can all be liabilities as well as assets. Policies and authorizing practices may in some cases make acquisitions onerous or impossible. And acquisitions cost money, even if they ultimately cost less than alternative ways of growing. We would not suggest that acquisitions always make sense, only that they are worth considering for charter operators seeking more rapid growth, especially into new states.

If the best charter operators acquired failing or mediocre schools and turned them into great schools, acquisitions would be a clear win for students. But what about acquisitions of already-excellent schools? Would that kind of acquisition serve any useful public purpose, or just change the schools' owners-of-record?

It turns out that acquisitions of already successful schools could serve a useful public purpose: sustaining the growing number of top-notch charter schools facing extinction or decline as their founders or current leaders retire or leave. According to a recent national survey, over 70 percent of charter leaders expect to leave their jobs within the next five years, and many charter schools are "unprepared when it comes to leadership turnover."[122] For the departing founder-leader, docking into a CMO serving similar students makes smooth leader succession more likely. Acquisitions may prevent a drop in results (or even the loss of entire schools) as the current generation of stand-alone charter leaders retires or changes jobs. In addition, the opportunity to exit personally without dooming their schools would free founding entrepreneurs – a special breed unto themselves – to pursue new start-ups.

How could sector actors foster more exploration of acquisitions as a strategy for growth – and preservation – of the best charter schools?

- **Charter and CMO Leaders:** Consider acquiring excellent, stand-alone schools and small CMOs as one method of growth, particularly into new states and cities (and for a potential innovation boost, too). Apply separate-branding strategies, described above, if needed to preserve your initial brand. Stand-alone charter leaders, when you are ready to retire or move to the next opportunity, seek acquisition by successful CMOs serving similar students and with similar school cultures.

- **Philanthropists:** Fund acquisition and transition costs to help founder-leaders leave gracefully and encourage acquisitions by capable CMOs serving similar student populations well. Fund brokering

nonprofits that can help match CMOs with schools and facilitate acquisition steps.

- **Policymakers:** Craft policies that enable acquisition of stand-alone schools by CMOs with a strong track record of student outcomes. For example, remove barriers in state laws or authorizing practices that would block friendly transfers of charters to operators with proven track records of excellence.

9. Exponential growers form operational alliances with others who are driven to grow

Research studies indicate that high-growth firms are significantly more likely than others to participate in alliances and other inter-organizational relationships.[123] Alliances that drive exponential growth can occur with:[124]

- **Complementors,** or "other firms independently making products or services that increase [an organization's] value to mutual customers."[125] The music industry and **Apple**, for example, became complementors when Apple developed the iPod and its online music store, iTunes. The success of iTunes became a boon to many major music companies.[126] Thomson highlights the particular importance of "Big Brother-Little Brother" alliances, in which bigger, established companies give smaller ones credibility, market intelligence, and access to key customers. The smaller companies, in turn, help their big brothers remain on the cutting edge of innovation.[127]

- **Competitors.** Competitor alliances may be more tenuous and short-lived, but still can be advantageous. Early on, **Google** partnered with leading websites, including AOL and Yahoo, generating revenue and prompting a surge in search requests.[128] **Microsoft** cut its teeth in application development writing software for Apple, a surprising alliance that later proved critical to Microsoft's continuing growth in the 1990s.[129]

- **Suppliers.** **Habitat for Humanity** embraced partnerships with numerous corporations that provided a ready and reliable supply of volunteers. The corporations benefitted from linking their brands with Habitat and offering employees an attractive community service opportunity.[130] When **Home Depot** began to reach the limits of geographic expansion, it expanded its customer base in existing stores by adding suppliers attractive to new customers; its partnership with Martha Stewart Living is one example.[131]

- **Franchisees.** Franchising is a frequently used form of alliance in the U.S., in which the franchisee assumes financial risk in return for the rights to provide branded services or products in a specified location. The most successful franchisors grow very quickly, building brand recognition. They also develop high-quality, replicable operating systems that local-site managers can use with minimal ongoing support from the central office of the franchisor.[132]

- **Customers.** At one point 25 percent of **eBay**'s sellers, over half a million people, made their livings as sellers on eBay and therefore had a direct interest in fueling eBay's growth. One of Cisco's key customer allies set up a lab to test Cisco products in exchange for early exposure to new offerings. Cisco then used the lab as a demonstration center for other customers.

RECOMMENDATIONS FOR THE CHARTER SECTOR

Pursue operational alliances *to overcome barriers to innovation, scale, and reach in order to serve more children in new locations, using new delivery methods that sustain or improve outcomes.*

Possibilities abound for using alliances to overcome growth barriers faced by the best charter operators. Here, we focus on five possibilities for **charter and CMO leaders** who want to use alliances for entering new geographies and solving delivery challenges.

Form alliances:

- **Between CMOs entering new geographies and excellent, local stand-alone schools.** CMOs expanding to new places face a number of challenges: aligning their programs with a new state's standards; adapting to a new authorizer's requirements; finding local funders; recruiting teachers, leaders, other staff, and contractors for key services; building community support and parent interest; and so on. An alliance with an excellent school already working in the geography could help a CMO address these challenges, much as an acquisition would. The ally would benefit as well, perhaps by gaining access to back office services provided by the CMO, or at least by learning how the larger CMO's management processes and back-office systems work.

- **Between CMOs and strong community-based organizations (CBOs) that provide or connect with social services.** CMOs can address two challenges by allying with CBOs. First, they may be able to reduce community resistance when entering new locales by formally allying with respected community organizations that have deep local connections. Second, if CBOs can provide or connect students with social services they need rapidly, CMOs may be able to decrease student dropout and academic declines caused by disruptive personal situations that many children in poverty face. The benefit to the CMO and to the children served could far exceed that of employing one on-site social worker with limited connections. The CBOs could benefit by covering part of their staff's time with fees paid by the CMO for the social service function. Meanwhile, CBOs considering micro-charters also could learn how the CMO delivers its education fare successfully.

- **Between CMOs (or single charter schools ready to expand) and online instructional providers.** For example, a successful middle-school CMO might want to expand into high school so that its graduates could attend similarly excellent schools in grades 9 through 12. Finding top-notch instructors across the range of content areas needed for a college-prep high school proves difficult, however, especially in hard-to-staff locations and subjects, like science, math, and foreign languages. An alliance with a provider of online high school courses with excellent instructors could help the CMO add high school slots faster than if it relies on hiring a full complement of local teachers. The alliance might be temporary, enabling the CMO to open high schools more quickly but ultimately giving way to a traditional staffing structure. Or, it might just become the way the CMO handles a portion of high school staffing. Either way, the alliance clears the specialized-teacher bottleneck that would otherwise hamper growth in many locations. The online provider, meanwhile, would receive a financial benefit and would also gain access to the vetting of its instructors and online material by a proven high-standards customer, who will provide critical feedback to sharpen the online provider's content.

- **Between CMOs and entrepreneurs who open franchise schools in new regions.** In the charter sector, franchising offers many possibilities for exponential growth into new geographic areas. Local franchisees might expand to multiple schools once established. However, while private sector franchisees bear most of the risk, the risk to established brands among charter providers might prevent some from using this form of expansion. Established CMOs might consider separate branding for franchisees until student outcomes meet the CMO standard for several years. Alternatively, franchisors could contract for the right to remove brand-and-systems rights from franchisees who miss key early benchmarks of success. Franchising is a strategy already used in one form by KIPP.[133] There are other possibilities. In all cases, the experience of other sectors indicates that excellent selection of franchisee leaders who can use systems, tools, and protocols provided by the CMO, with minimal ongoing support, will improve success rates.

- **Between CMOs and large numbers of micro-charter holders.** If the idea of "micro-charters" presented above advances, CMOs may be able to provide micro-charter holders with

materials, training, or other benefits in exchange for access to the innovative ideas and entrepreneurial spirit that growing CMOs fear they will lose. Some micro-charter holders will succeed and grow, and the CMOs that have strong alliances can hitch their growth wagon to them, much like eBay thrived off the growth of its network of highly motivated sellers.

These are just five examples of alliances that could solve delivery challenges hampering the growth and effectiveness of the charter sector.

Philanthropists can enable alliances like these by funding broker organizations that connect CMOs committed to high growth with likely allies outside that close network, e.g., excellent stand-alone schools, online providers, local education-oriented entrepreneurs, and community-based organization leaders in target geographies. **Policymakers'** roles primarily fall in previous sections of this report: clearing barriers to cross-state teaching, enabling micro-chartering, and otherwise remove obstacles to creative alliances.

Final Word

While this report is a start, charter leaders who want to pursue exponential growth and funders who want to support them must become much more familiar with the rapid-growth strategies used in other sectors and apply them to education. In addition, policymakers must prioritize removing any barriers to growth by the best – while also creating new incentives and avenues for excellent programs to reach more children. Rapid growth of excellent charter school slots will be most likely if policymakers clear the way *and* the charter sector adopts bold new strategies like those outlined here.

The discussion here outlines numerous possible approaches. Some will make more sense for a given charter operator or funder; others won't fit. Ideas beyond those we have generated for this report may have equal or greater transformative potential. All of us must think with fresh minds and open hearts – cutting through the fog created by today's challenges and looking forward to the incredible potential of the sector's best to serve far more children, far better.

Endnotes

[1] Diane Ravitch, "The Myth of Charter Schools," New York Review of Books, November 11, 2010, http://www.nybooks.com/articles/archives/2010/nov/11/myth-charter-schools (accessed November 20, 2010).

[2] National Alliance for Public Charter Schools (NAPCS), Charter School Dashboard, http://www.publiccharters.org/dashboard/home (accessed August 4, 2010).

[3] Center for Research on Education Outcomes (CREDO), Multiple Choice: Charter School Performance in 16 States (Palo Alto, CA: The Hoover Institution, Stanford University, 2009), 1. http://credo.stanford.edu/reports/MULTIPLE_CHOICE_CREDO.pdf

[4] This figure, 270,000, is approximately 17 percent of total charter school enrollment of 1.6 million. This is an estimate because these higher performing schools may be larger or smaller, on average, than the average charter school nationally.

[5] Nearly 49.4 million children were enrolled in public schools in fall 2010. 19.2 percent of children ages 5 to 17 fell below the poverty line. National Center for Education Statistics (NCES), Fast Facts (Washington, DC: Institute of Education Sciences, U.S. Department of Education, 2010), http://nces.ed.gov/fastfacts/display.asp?id=372. See also U.S. Census Bureau, Current Population Survey, 2010 Annual Social and Economic Supplement, http://www.census.gov/hhes/www/cpstables/032010/pov/new01_100_01.htm.

[6] In districts serving communities with high rates of poverty, graduation rates typically range from 55 to 60 percent. "Diplomas Count 2010," Education Week 29, no. 34 (June 10, 2010): 4.

[7] NCES, The Nation's Report Card: Mathematics 2009, (Washington, DC: Institute of Education Sciences, U.S. Department of Education, 2009), 63, http://nces.ed.gov/nationsreportcard/pdf/main2009/2010451.pdf. NCES, The Nation's Report Card: Reading 2009, (Washington, DC: Institute of Education Sciences, U.S. Department of Education, 2009), 67, http://nces.ed.gov/nationsreportcard/pdf/main2009/2010458.pdf

[8] An estimated 20 percent of intellectually gifted children are raised in families in the bottom 40 percent of the income distribution. No doubt these as well as many of their hardworking peers could learn and achieve far past grade level standards with the right opportunities. J. T. Webb, E. A. Meckstroth, and S. S. Tolan, Guiding the Gifted Child (Scottsdale, AZ: Great Potential Press, 1989).

[9] Authors' tabulations from Common Core of Data information on school demographics nationwide, 2004-05, and data provided online by NAEP Data Explorer. NCES, National Assessment of Education Progress (Washington, DC: Institute of Education Sciences, U.S. Department of Education, 2005), http://nces.ed.gov/nationsreportcard/naepdata/.

[10] NCES, The Nation's Report Card.

[11] See the leading roundup of research on gifted education: Nicholas Coangelo, Susan G. Assouline, and Miraca U. M. Gross, A Nation Deceived: How Schools Hold Back America's Brightest Students (Iowa City: The Connie Belin & Jacqueline N. Blank International Center for Gifted Education and Talent Development, 2004), http://www.accelerationinstitute.org/nation_deceived/

[12] NCES, Contexts of Elementary and Secondary Education (Washington, DC: Institute of Education Sciences, U.S. Department of Education, 2009), http://nces.ed.gov/programs/coe/2009/section4/indicator32.asp.

[13] P. E. Peterson and M. R. West, "African-Americans for Charter Schools," Wall Street Journal, August 3, 2010, http://online.wsj.com/article/SB10001424052748704271804575405121906353464.html.

[14] This feeling is easier for more of us to grasp today, thanks to the onslaught of movies such as The Lottery and Waiting for Superman.

[15] Today's CMOs rely on very capable principal-level leadership in each of their networks' schools. They tend to strongly prefer internal candidates: individuals who have spent a few years teaching within the CMO's culture. See National Charter School Research Project (NCSRP), Quantity Counts: The Growth of Charter School Management Organizations (Seattle, WA: Center on Reinventing Public Education, University of Washington, 2007), 26. This pipeline is simply too small to allow for more rapid expansion than most CMOs are experiencing. And many school leaders do not stay long: one study found that 71 percent of charter school principals planned to leave within five years. Education Sector, Growing Pains: Scaling Up the Nation's Best Charter Schools (Washington, DC: Author, 2009), 11-12.

[16] The average charter school receives about 81 percent of the funding enjoyed by school districts in the same state. In large cities, charter schools face even steeper inequity, receiving about 72 percent of district funding. M. Batdorff, L. Maloney, and J. May, Charter School Funding: Inequity Persists (Muncie, IN: Ball State University, 2010). For a rich discussion of the financial challenges facing CMOs, see A. Demeritt and R. Lake, Paying for Scale: Results of a Symposium on CMO Finance (Seattle: Center on Reinventing Public Education, 2010).

[17] Charter schools generally lack access to existing school buildings, dedicated facilities funding or the ability to issue taxpayer-backed bonds for school construction. In some cities, school real estate is hard to find at any price. As a result, the lack of ready, affordable space presents a constraint to the growth of charter schools of any kind, including CMO schools. See Education Sector, Growing Pains, 6; and also E. Balboni, R. Bhatia, K. Olsen, S. McCuistion, and J. Meyers, 2010Charter School Facility Finance Landscape (New York: Local Initiatives Support Corporation, 2010), http://www.lisc.org/docs/resources/effc/2010CSFLandscape_r.pdf.

[18] See NCSRP, Quantity Counts, 22-24.

[19] See NCSRP, Quantity Counts, 24. Also, Catherine Gewertz, "State Adoptions of Common Standards Steam Ahead," Education Week 29, no. 36 (July 14, 2010), http://www.edweek.org/ew/articles/2010/07/09/36standards.h29.html

[20] In interviews, CMO leaders indicated that they worry growing too rapidly will compromise results in a variety of ways. They fear that opening too many new sites too quickly will lead to an inevitable decline in quality, that serving more and different kinds of students will result in "mission creep" and a loss of focus, and that becoming large means becoming bureaucratic and losing entrepreneurial responsiveness.

[21] The average charter school receives about 81 percent of the funding enjoyed by school districts in the same state. In large cities, charter schools face even steeper inequity, receiving about 72 percent of district funding. Some of the strategies pursued by CMOs exacerbate the challenge: launching their schools on a small scale (e.g., serving a single grade in year one) and growing over time, and running schools with longer school days and school years. The result is heavy reliance on philanthropy. According to one report, charitable funders have invested more than half a billion dollars in the CMO movement, with the bulk of this coming from five foundations (Broad, Dell, Fisher, Gates, and Walton). Continuing CMO reliance on this level of foundation involvement in funding could become "a serious barrier to growth." See Batdorff et al., Charter School Funding: Inequity Persists; and Education Sector, Growing Pains, 6, 7-9, 14-15.

[22] Education Sector, Growing Pains, 6; Balboni et al. 2010 Charter School Facility Finance Landscape.

[23] Education Sector, Growing Pains, 5.

[24] Revenues of organizations in the private sector grow at an average annual rate of 3.5 percent, which includes growth industries, declining industries and stable ones. See B.R. Barringer, F.F. Jones, and D.O. Neubaum, "A Quantitative Content Analysis of the Characteristics of Rapid-Growth Firms and Their Founders," Journal of Business Venturing, 20, 5 (2005) 663-687. But the best growers grow at much higher rates, even in slow-growth industries. One quantitative study compared 387 sustained, rapid growth firms that achieved a billion dollars in revenue to over 5,000 peer companies that fell short of this mark (D.G. Thomson, Blueprint to a Billion: 7 Essentials to Achieve Exponential Growth (Hoboken, NJ: John Wiley & Sons, Inc., 2006). Companies that no longer existed in 2004 were excluded from this study. Technology firms were only 18 percent of the firms achieving 1 billion in revenue. Between 1980 and 2004, roughly five percent of companies that had initial public offerings achieved one billion dollars in annual revenue. Those that did had varying "runway" timing – the time before they began to grow rapidly and in large numbers – ranging from two years to over one hundred years. But they all converged at their "inflection points," the points in time when they began to grow at sustained, high exponential rates. Once they hit these rapid-growth inflection points, these 387 firms achieved the billion dollar mark in clusters – some in a very rapid four years (e.g., Google), others in six years (e.g., Career Education, Starbucks and Microsoft), and others in the 10 – 14 year range. Altogether, by 2004 this five percent of companies accounted for 56 percent of employment among the companies studied (Thomson, Blueprint to a Billion, 3). Their effect on the American landscape, and world, was enormous. What annual rate of growth did these companies achieve on their way to a billion? Companies that achieved a billion dollars in revenue ten years after rapid growth began grew at approximately a 40 percent average annual growth rate during that time. The six year group's rate was about 80 percent, with the four year group averaging 170 percent. Calculations based on data provided in (Thomson, Blueprint to a Billion, 3), 7.

[25] CREDO's 2009 study of more than 70 percent of charter students nationally found that 17 percent of charter schools "provide superior education opportunities for their students." CREDO reached that conclusion based on a comparison of charter students' academic development over time with that of demographically similar students in non-charter schools. Methodological disputes over this study continue to rage. Here, we are conservative and assume that only the better among that 17 percent are worthy of rapid growth. Next, we identified the number of children served by charter schools: In the 2009-10 school year, that figure was 1,665,779. Taking 10 percent of that number, children today have access to an estimated 166,578 great charter slots. See CREDO Multiple Choice: Charter School Performance in 16 States, 1; and tabulations from data provided by NAPCS' Charter School Dashboard.

[26] In the past five years, the number of children attending charter schools in the U.S. has grown at approximately a 13.2 percent annual rate, representing a decline from the ten year growth rate of 16.9 percent. See tabulations from data provided by NAPCS' Charter School Dashboard. These growth rates represent growth in the number of students served, not in the number of schools (and as we show later, the number of students is the right metric). Given the influx of federal funds to encourage growth, here we assume that the higher 16.9 percent growth rate resumes. Some individual CMOs, of course, may well be planning to grow faster than that. But only five CMOs in existence today plan to run more than 50 schools at their maximum scale. So, the 16.9 percent growth rate appears to be reasonable basis for projecting the growth of high-quality seats based on current trends. See R. Lake, B. Dusseault, M. Bowen, A. Demeritt, and P. Hill, The National Study of Charter Management Organization (CMO) Effectiveness: Report on Interim Findings (Seattle, WA: Center on Reinventing Public Education, University of Washington, 2010), 4. http://www.crpe.org/cs/crpe/download/csr_files/pub_nesrp_cmo_jun10.pdf.

[27] CREDO's study also found that 37 percent of charter schools "deliver learning results that are significantly worse than their student [sic] would have realized had they remained in traditional public schools." The rest, minus the 17 percent that do better, are comparable to district schools. On average, charter schools are better for disadvantaged children. See CREDO, Multiple Choice: Charter School Performance in 16 States, 1; and P. Gleason, M. Clark, C. C. Tuttle, and E. Dwoyer, The Evaluation of Charter School Impacts: Final Report. (Washington, DC: National Center for Education Evaluation and Regional Assistance, Institute of Education Sciences, U.S. Department of Education, 2010). http://ies.ed.gov/ncee/pubs/20104029/pdf/20104029.pdf

[28] On the challenges of closing low-performing schools, see A. J. Rotherham, "The Pros and Cons of Charter

School Closure," in R. Lake, ed., Hopes, Fears and Reality: A Balanced Look at American Charter Schools in 2005 (Seattle, WA: National Charter School Research Project / Center on Reinventing Public Education, 2005); Frederick M. Hess, "Whaddya mean you want to close my school? The politics of regulatory accountability in charter schooling," Education and Urban Society 33, no. 2 (2001): 141-156; Julie Kowal and Bryan C. Hassel, Closing Troubled Schools (Seattle, WA: Center on Reinventing Public Education, 2008); and Lucy Steiner, Tough Decisions: Closing Persistently Low-Performing Schools (Lincoln, IL: Center on Innovation and Improvement, 2008).

[29] B. Barringer, F. Jones, and D. Neubaum, "A Quantitative Content Analysis of the Characteristics of Rapid-growth Firms and their Founders," Journal of Business Venturing 20 (2005): 663-687.

[30] Barringer et al., "Characteristics of Rapid-growth Firms and their Founders;" and Thomson, Blueprint to a Billion. Thomson found that 5 percent of public companies during the period studied sustained these fast growth rates until reaching a billion dollars in revenue.

[31] We also conducted research about when and how exponential growth occurs in the natural world, specifically examining mold, algae, cancer, crystals and viruses. We used these findings in addition to cross-sector lessons to fuel our thinking about fresh directions for the charter sector. The similarities between the natural world and organizational worlds are rather striking and useful for understanding the critical elements of exponential growth.

[32] Research indicates that the will needed to grow exponentially starts at the top of the organization. A Barringer et al. study comparing 50 rapid-growth firms to 50 of their slower-growing peers found that the founder-leaders of rapid growth firms had more compelling "entrepreneurial stories" – they had overcome significant obstacles to start firms or displayed extreme levels of motivation to be entrepreneurs. This study included analysis of narrative descriptions of 50 rapid-growth and 50 slow-growth firms, all randomly selected from a set of case studies provided by the Ewing Marion Kauffman Foundation. The cases came from a database of narratives from regional or national winners of the Ernst & Young LLP Entrepreneur of the Year award. Each narrative was about 3000 words long and followed a standard format, and was accompanied by financial information allowing researchers to calculate a three-year compound annual growth rate. "Rapid-growth firms" were those with a three-year compound annual growth rate of 80 percent or higher. "Slow-growth firms" were those with rates of 35 percent or lower. The average three-year compound annual growth rate of the rapid-growth firms in the sample was 166 percent, while the average growth rate of the slow-growth firms was 1.55 percent. Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 664, 678-679. See discussion of the mission focus of top leadership in Thomson, Blueprint to a Billion, 83. Also see P. A. Gompers, A. Kovner, J. Lerner, and D. S. Scharfstein, "Performance Persistence in Entrepreneurship," Harvard Business School Working Paper No. 09-028, July 2008), who find no benefit to prior entrepreneurial experience unless successful.

[33] This study included thirty firms that had undergone growth of 20 percent or more for five consecutive years, and it then compared ones that were more and less successful at maintaining growth thereafter. D. C. Hambrick and L. M. Crozier, "Stumblers and Stars in the Management of Rapid Growth," Journal of Business Venturing 1, no. 1 (1985): 31-45.

[34] For example, Starbucks rejected what its leaders saw as an easy route to growth via franchising, opting instead to maintain control of company operations and culture. Mark Zuckerberg turned down repeated opportunities to sell Facebook, including a purported billion-dollar offer from Yahoo, to maintain control over the organization. EBay's early leaders turned to venture capitalists, not for financing but for help building the company. Howard Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time (New York: Hyperion, 1997), 172-173; N. F. Koehn, Howard Schultz and Starbucks Coffee Company (Harvard Business School Case Study #9-801-361, 2001), 18; Z. Mokhtar, G. Tavridis, and W. P. Barnett, Facebook (Stanford Graduate School of Business Case Study #E-220, 2008), 10; L. A. Hill and M. T. Farkas, Meg Whitman at eBay Inc. (Harvard Business School Case Study #9-401-024, 2000), 2, 3; and S. P. Bradley, eBay, Inc. (Harvard Business School Case Study #9-700-007, 1999), 2.

[35] See E. Fischer and A. R. Reuber, "Support for Rapid-Growth Firms: A Comparison of the Views of Founders, Government Policymakers, and Private Sector Resource Providers," Journal of Small Business Management 41, no. 4 (2003): 346-365; R. Reuber and E. Fischer, "Effectively Supporting Growth," Rotman Magazine (Fall 2005): 46-49; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 31-45.

[36] See discussion of how this "mission" focus affects choice of customers in Thomson, Blueprint to a Billion, 83.

[37] Starbucks and Microsoft are two well-known examples. When Howard Schultz and local investors bought Starbucks, Schultz promised to open 125 stores and raise annual revenues to $60 million within five years. In 1981, Bill Gates publicly predicted that Microsoft would surpass $100 million in revenues by 1985. Koehn, Howard Schultz and Starbucks Coffee Company, 10; Bill Gates and the Management of Microsoft (Harvard Business School Case Study #9-392-019, 1991), 3.

[38] See for example the story of eBay. Bradley, eBay, Inc.

[39] Cisco and Walmart are two well-known examples. Thomson, Blueprint to a Billion, 178; J. R. Wells and T. Haglock, The Rise of Wal-Mart Stores Inc. 1962-1987 (Harvard Business School Case Study #9-707-439, 2006), 7; P. Ghemawat, S. P. Bradley, and K. A. Mark, Wal-Mart Stores in 2003 (Harvard Business School Case Study #9-704-430, 2003), 3-4.

[40] Fischer and Reuber, "Support for Rapid-Growth Firms," 356, 358.

[41] Thomson, Blueprint to a Billion, 16-17, 155-182. Also see B. Mascarenhas, A. Kumaraswamy, D. Day, and A.

Baveja, "Five Strategies for Rapid Firm Growth and How to Implement Them," Managerial and Decision Economics, 23, no. 4/5 (2002): 324 ("If top management is not freed from day-to-day operations it will not be able to plan system integration and develop long term relationships with key customers."). Also, Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 31-45. The authors' study of 30 rapid-growth firms was still underway when they published this article. The firms in their sample were all from the information processing and health care industries, and were all in the top 200 in terms of five-year sales growth rate as of 1981 (measuring sales growth in 1976-1980). All firms in the sample grew at a minimum of 20 percent for each of the five years from 1976-1980. To be selected, no more than 30 percent of a firm's five-year growth could be due to acquisitions, and no more than 10 percent could be due to unrelated acquisitions. Seventy-four firms met these initial screening criteria. Of these, 18 were categorized as "Successes" or "Stars" because they continued at or above 10 percent growth from 1981 through 1983 and did not have a single year's Return on Assets below eight percent. Of the remainder, 12 were categorized as "Stumblers" because they experienced two years of sales declines, two years of losses, or one of each, between 1981 and 1983. The rest of the firms in the sample, which showed moderate or mixed results from 1981 to 1983, were dropped from the final sample. Researchers analyzed available print resources about the firms in their sample, and conducted interviews with executives and board members at some of the firms.

[42] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 31-45; Thomson, Blueprint to a Billion, 83-84; Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 672, 679-680.

[43] L. R. Crutchfield and H. M. Grant, Forces for Good: The Six Practices of High-Impact Nonprofits (San Francisco, CA: Jossey-Bass, 2008), 12-13. After Howard Schultz and the other Starbucks leaders reached their goal of reshaping the coffee drinking experience for average Americans, they framed an even bigger goal: "to become the most recognized and respected brand of coffee in the world." At each level of growth success, Shultz expanded his vision, and ultimately aspired to be "known for inspiring and nurturing the human spirit." Howard Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 196; Starbucks website, http://news.starbucks.com/about+starbucks/starbucks+coffee+us/. Similarly, CEO John Chambers said of Cisco's growth strategy, "We made the conscious decision . . . to attempt to shape the future of the entire industry. We decided to play very aggressively and truly attempt to do in the networking industry what Microsoft did with PCs and IBM did with mainframes." C. A. O'Reilly III and J. Pfeffer, Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People (Boston, MA: Harvard Business School Press, 2000), 56.

[44] Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 105.

[45] T. Khanna and D. Yoffie, Microsoft, 1995 (Harvard Business School Case Study #9-795-147, 1995).

[46] M. Gibbs and M. Beer, "Apple Computer (A): Industry, Strategy and Organization" (Harvard Business School Case Study #9-491-040, 1990), 2.

[47] This formula could also include a sense of proportion or market share. The sector's impact on our nation depends on how the number of children with excellent outcomes grows in proportion to other educational options.

[48] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them;" Thomson, Blueprint to a Billion; Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 680; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36.

[49] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them;" Thomson, Blueprint to a Billion; Barringer et al. ,"Characteristics of Rapid-growth Firms and their Founders," 680; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36.

[50] Thomson, Blueprint to a Billion, 16, 131-154. Thomson's "Blueprint" companies became cash flow positive early and sustained high revenue and revenue growth.

[51] Thomson, Blueprint to a Billion, 131-154. Cash flow is affected by: 1) the difference between how much the organization pays for money ("cost of capital") and how much it earns on that money ("return on invested capital") and 2) revenue growth that grows the total dollar amount of margins. Here, we present this idea simply, but CMO strategists and financial stewards will appreciate the detail in Thomson's book.

[52] See J. B. Roure and R. H. Keeley, "Predictors of Success in New Technology Based Ventures," Journal of Business Venturing 5 (1990): 203-204, 206; M. J. Roberts and L. Barley, How Venture Capitalists Evaluate Potential Venture Opportunities (Harvard Business School Case #9-805-019, 2004); J. A. C. Baum and B. S. Silverman, "Picking Winners or Building Them? Alliance, Intellectual, and Human Capital as Selection Criteria in Venture Financing and Performance of Biotechnology Startups," Journal of Business Venturing 19 (2004): 411-436; A. Davila, G. Foster, and M. Gupta, "Venture-Capital Financing and the Growth of Startup Firms," Stanford University Graduate School of Business Research Paper Series, Research Paper No. 1667 (2000); J.J. Chrisman, A. Bauerschmidt, and C. W. Hofer, "The Determinants of New Venture Performance: An Extended Model," Entrepreneurship: Theory & Practice (Fall, 1998): 5-29; J. B. Roure and M. A. Maidique, "Linking Prefunding Factors and High-Technology Venture Success: An Exploratory Study," Journal of Business Venturing 1 (1986): 295-306; Thomson, Blueprint to a Billion, 131-154.

[53] Lake et al., National Study of CMO Effectiveness, 53-57.

[54] Batdorff et al., Charter School Funding: Inequity Persists.

[55] Bryan C. Hassel and Daniela Doyle, Shifting Risk to

Create Opportunity: A Role for Performance Guarantees in Education (Washington, DC: American Enterprise Institute, 2010).

[56] As with any performance-based incentive, policymakers would need to take great care in the design of the incentives, such as choosing the right metrics to be the basis for bonuses or penalties and setting appropriate thresholds for payments and reductions. It would be especially important to base determinations largely on student learning progress to avoid creating a disincentive for charter schools to serve lagging students.

[57] Philanthropists could also help create performance guarantees on the downside. For charter operators they support, funders could underwrite their performance guarantees to give policymakers confidence they will be able to make good on their promises in the event of shortfalls. For example, a foundation could obtain a letter of credit from a lender to back a performance guarantee offered by a charter operator. For more discussion, see Hassel and Doyle, Shifting Risk to Create Opportunity: A Role for Performance Guarantees in Education.

[58] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 40.

[59] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 35-37.

[60] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 321, 326-27.

[61] Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 153-156.

[62] Koehn, Howard Schultz and Starbucks Coffee Company.

[63] P. M. Rosenzweig, "Bill Gates and the Management of Microsoft" (Harvard Business School Case Study #9-392-019, 1991); Wells and Haglock, The Rise of Wal-Mart Stores Inc. 1962-1987, citing S. S. Vance and R. V. Scott, Wal-Mart: A History of Sam Walton's Retail Phenomenon (New York: Twayne, 1994), 122-123.

[64] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 35-37.

[65] M. Gibbs and M. Beer, "Apple Computer (A): Industry, Strategy and Organization" (Harvard Business School Case Study #9-491-040, 1990).

[66] Crutchfield and Grant, Forces for Good: The Six Practices of High-Impact Nonprofits, 171.

[67] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 32, 36-37; Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 679-681.

[68] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 40.

[69] Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 679-681; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 40.

[70] Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 679-681; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 41.

[71] N. Moffitt, "Managing Without Commitment: Wharton's Peter Cappelli and The New Deal--Or Is It a Raw Deal--At Work," Wharton Alumni Magazine (Winter 2001); J. Pfeffer, "SAS Institute (A): A Different Approach to Incentives and People Management Practices in the Software Industry" (Stanford University Graduate School of Business Case Study HR-6, 1998).

[72] O'Reilly and Pfeffer, Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary; Pfeffer, "SAS Institute (A): A Different Approach to Incentives and People Management Practices in the Software Industry."

[73] Pfeffer, "SAS Institute (A): A Different Approach to Incentives and People Management Practices in the Software Industry."

[74] Education Pioneers, "What We Do: Strategy and Impact," http://www.educationpioneers.org/what-we-do/strategy-impact.

[75] E. Foster, "How Boomers Can Contribute to Student Success: Emerging Encore Career Opportunities In K-12 Education," (Washington, DC: National Commission on Teaching and America's Future, 2010).

[76] For a broader discussion of how education could import leaders successfully, see the report Importing Leadership, forthcoming from Public Impact.

[77] Emily Ayscue Hassel and Bryan C. Hassel, "The Big U-Turn: How to Bring Schools from the Brink of Doom to Stellar Success."

[78] Hassel and Hassel, "The Big U-Turn: How to Bring Schools from the Brink of Doom to Stellar Success," 12.

[79] For more detail, see J. Kowal and D. Brinson, Beyond Classroom Walls: Developing Innovative Work Roles for Teachers (Washington, DC: Center for American Progress, forthcoming).

[80] For a broader discussion of policy changes that would facilitate technology-enabled reach extension and online learning more generally, see Digital Learning Council, Digital Learning Now! (Tallahassee, FL: Foundation for Excellence in Education, 2010).

[81] Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 679.

[82] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 41. Also see Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 321.

[83] C. J. Fombrun and S. Wally, "Structuring Small Firms for Rapid Growth," Journal of Business Venturing 4, 2 (1989): 117.

[84] See Public Impact's forthcoming Seizing Opportunity at the Top for policy recommendations to extend the reach and results of the best teachers to more children, and see more papers and discussion of related topics at opportunityculture.org.

[85] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 321-24; Thomson, Blueprint to a Billion, 53-80.

[86] Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 194; Koehn, Howard Schultz and Starbucks Coffee Company, 19; Thomson, Blueprint to a Billion, 97-98.

[87] Koehn, Howard Schultz and Starbucks Coffee Company, 19.

[88] Koehn, Howard Schultz and Starbucks Coffee Company, 22; Starbucks Coffee Company (Tuck School of Business at Dartmouth Case Study #1-0023, 2002), 3; Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 267-271; Thomson, Blueprint to a Billion, 98.

[89] See http://www.starbucks.com/coffeehouse

[90] Wells and Haglock, The Rise of Wal-Mart Stores Inc. 1962-1987, 11; Ghemawat et al., Wal-Mart Stores in 2003, 5-6.

[91] Thomson, Blueprint to a Billion, 48, 58-60, 69-70.

[92] Frederick M. Hess and Bruno V. Manno, "Getting Past Generic 'Choice': Rethinking Supply and Demand in Schooling's Social Market, Education Week (October 15, 2008).

[93] Authors' tabulations from Common Core of Data information on school demographics nationwide, 2004-05.

[94] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them;" Thomson, Blueprint to a Billion; Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 680; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36.

[95] On getting to know customers: Barringer et al., "Characteristics of Rapid-growth Firms and their Founders," 679-680; on exposing leaders to new ideas: Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 38-39; on spending more on innovation: Thomson, Blueprint to a Billion, 25-50, 140.

[96] Reuber and Fischer, "Effectively Supporting Growth," 49.

[97] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 320-325; Thomson, Blueprint to a Billion, 23-50.

[98] See generally Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them."

[99] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 320-325; Thomson, Blueprint to a Billion, 23-50. These sources contain numerous stories that illustrate the wide variety of ways that exponential growers innovate.

[100] Wells and Haglock, The Rise of Wal-Mart Stores Inc. 1962-1987, 11; Ghemawat et al., Wal-Mart Stores in 2003, 5-6.

[101] See the investor relations section of Career Education's website for materials about the different business units and growth. Retrieved January 7, 2011 at http://phx.corporate-ir.net/phoenix.zhtml?c=87390&p=irol-irhome.

[102] Clayton M. Christensen, The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail, (Boston: Harvard Business School Press 1997),110-113.

[103] Successful turnarounds nearly always include momentum-building early wins achieved by targeting focused problems and populations in the first year, rather than trying to achieve more diffuse, smaller gains across the board. See Hassel and Hassel, "The Big U-Turn: How to Bring Schools from the Brink of Doom to Stellar Success."

[104] See Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 326; Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36-38.

[105] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36.

[106] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 36.

[107] Schultz, Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time, 142-143; Koehn, Howard Schultz and Starbucks Coffee Company, 13.

[108] Wells and Haglock, The Rise of Wal-Mart Stores Inc. 1962-1987, 4, 7; Ghemawat et al., Wal-Mart Stores in 2003, 4, 12.

[109] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 37-38.

[110] A. Slavitt and G. Loveman, "Habitat for Humanity International" (Harvard Business School Case Study #9-694-038 (1994); Crutchfield and Grant, Forces for Good: The Six Practices of High-Impact Nonprofits.

[111] Hambrick and Crozier, "Stumblers and Stars in the Management of Rapid Growth," 37-38.

[112] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 321, 323-324.

[113] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 326.

[114] See O'Reilly and Pfeffer, Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People, 51 ("[M]ost mergers are failures, not only failing to achieve their intended objectives but, in many cases, actually destroying economic value as companies struggle to combine cultures, systems, and products." The authors go on to examine Cisco as an exception.).

[115] Mascarenhas et al., "Five Strategies for Rapid Firm Growth and How to Implement Them," 326.

[116] P. Anderson, V. Govindarajan, C. Trimble and K. Veerman, "Cisco Systems (A): Evolution to E-Business" (Tuck School of Business at Dartmouth, William F. Achtmeyer Center for Global Leadership, Excellence in Strategic Innovation Series Case Study #1-0001, 2002), 8.

[117] Anderson et al., "Cisco Systems (A): Evolution to E-Business," 16.

[118] O'Reilly and Pfeffer, Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People. See Chapter 3, "Cisco Systems: Acquiring and Retaining Talent in Hypercompetitive Markets," 49-77.

[119] O'Reilly and Pfeffer, Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People, 49-77.

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